# Accountancy

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# Professional Notes

## Railways in the Inflationary Phase

THE DRASTIC INCREASES IN RAILWAY PASSENGER FARES THAT ARE NOW PROJECTED illustrate the extreme difficulty of commercial budgeting in inflationary conditions. Just over a year ago the British Transport Commission submitted a scheme for increased passenger fares in London, and a few months before that, one for increased freight charges. At the time these proposals were put forward, to quote their own words, "the further rises in the cost of wages, fuel and materials which have occurred could not have been foreseen." Increased freight charges became effective in May, 1950, and increased passenger fares in London in the latter part of the year. At that time, to quote the Commission again, "it was . . . possible to feel that a position of financial equilibrium was in sight, even though nothing was available for reserve." But by the early months of this year the picture had completely changed. One rise in costs followed another—some £25 million a year in wages and salaries, £10 million a year in petrol and fuel oil (including the effects of the recent Budget), £3 million in coal, £3 million in tyres, £3 million in maintenance materials and other supplies. The Commission reckoned that they were faced with a deficit in 1951 of about £25 million, failing further adjustments in charges.

A further increase of 10 per cent. in freight charges was authorised from the middle of last month. It was estimated to yield £20 million in a full year and £14 million or £15 million this year.

Now comes the scheme for increased railway fares for passengers. It is estimated to yield £17 million in a full year, but only a small part of that sum in 1951, since it will not be fully operative until late in the year. So it seems that even the steep increases in fares now proposed will not close the gap this year and another deficit will be added to the accumulated deficiency of some £40 million since nationalisation.

Broadly, the increases proposed in passenger fares amount to an average of one-fifth in London, approximately 10 per cent. in monthly return fares outside London (single fares being unchanged) and about 10 per cent. in season ticket rates outside London.

The Commission has saved about £500,000 yearly by closing branch lines and stations. Economies in this and other directions must, it is clear, be made with all possible speed but it is idle to suggest they can possibly avert the inflationary effects of inflation. Those effects multiply themselves in rising commodity prices, however, when freight charges increase.

Both passengers and businesses will undoubtedly turn increasingly to the alternative of road transport—where the increase in charges is only 2 to 3 per cent.—and this consideration leads one to wonder whether even the present estimates of the British Transport Commission will prove to be over-optimistic, even though they have stated that the effects upon demand for railway services have been fully taken into account. Since the main cause of the uneconomic operation of passenger trains is that they run, on average, with under 50 per cent. of seats occupied, the outsiders who suggest that a decrease, rather than an increase, in fares is called for may be right, though it is no doubt too much to expect the Commission to risk testing the elasticity of demand by a "devaluation of fares."

## The 1950 National Income

The 1951 edition of the National Income White Paper (*National Income and Expenditure of the United Kingdom, 1946 to 1950*, Command 8203, His Majesty's Stationery Office, 1s. 9d. net) is a document even more formidable than its predecessors. The basic statistics have been amplified and the reliability of the estimates increased.

The gross national product in 1950 is estimated at £11,970 million, an increase of 4½ per cent. on the previous year's figure, compared with one of 7½ per cent. between 1948 and 1949.

Company trading profits, after deducting initial allowances and depreciation, amounted to £1,692 million. Other income of £455 million brought the total company income up to £2,147 million, of which £827 million was paid out in interest and dividends and taxation required £761 million, leaving undistributed profits for the year at £559 million. It is necessary, however, to use this figure warily and it certainly cannot be compared with that given for undistributed profits in 1949. This is because it includes the profit on the appreciation of stocks and work in progress, the amount of which was £205 million last year for public corporations as well as companies, but the total for corporations was very small. In 1949 the corresponding figure was only £7 million. The authors of the White Paper emphasise that the paucity of data makes these last estimates particularly tentative.

The information provided on capital formation is much fuller than in previous White Papers. Outlay on plant was £880 million in 1950 (£851 million in 1949) and on new building and works £697 million (£631 million in 1949). Repairs of buildings and works absorbed £585 million (£600 million in 1949) and the physical increase in stocks and work in progress was valued at £115 million (£215 million in 1949). Aggregating these various items, total capital formation amounted to £2,277 million in 1950 and £2,297 million in 1949.

The savings to provide the total of £2,277 million of capital investment were found as follows:

| | £ million |
|---|---|
| Depreciation allocations ... | 1,022 |
| Additions to free reserves from undistributed profits | 364 |
| Surpluses out of income resulting from Government action ... ... | 788 |
| Personal savings ... ... | 332 |
| | 2,506 |
| *Less* favourable balance of payments ... ... | 229 |
| | 2,277 |

**Budget Windfall for Shareholders**

Reports and dividend warrants were being printed before and during the Budget speech, showing profits tax deducted at 30 per cent. and income tax at 9s. in the £. The lucky shareholders obtained 11s. per £ of gross dividend instead of 10s. 6d. per £. In a year's time taxation adjustments will have to be made, with the companies presumably fulfilling the role of payers of the additional tax. *Ford Motor*, for example, raised its Ordinary dividend cheque from £495,000 to £618,750, and with only a month in which to prepare dividend warrants less tax at 9s. 6d. it seems feasible that shareholders may not suffer this rate of tax deduction, since the warrants may have been in the hands of the printers before Budget day. At the time of writing this company's annual meeting has not been held, so we do not know which course it will adopt. But more than one chairman will have to tell his shareholders how they benefited from an accident of time.

**This Watch-Dog Bites!**

In our last issue (page 127) we commented upon the registration of accountants in South Africa—the most important feature of a Bill which was introduced by the Minister of Finance there and has since been passed. Another provision of the legislation extends the powers and duties of auditors quite significantly. "The person," it reads, "who carries out an audit in any undertaking":

> shall report to the person in charge of that undertaking any material irregularity of which he has cause to complain in his capacity as auditor, and shall, if that irregularity is not dealt with to his satisfaction or rectified within a period of one month after the date on which it was so reported, in writing inform the Board [the proposed Public Accountants' and Auditors' Board] thereof.

The Board would be empowered in certain circumstances to refer the report to the Attorney General. But an auditor is protected against an action for damages in giving any certificate or expression of opinion unless it was given maliciously or negligently.

**Britain's International Accounts**

If the 1950 balance of payments is taken at its face value it is nothing but encouraging. There was a surplus on account of current transactions of £229 million, compared with one of only £30 million in 1949 (and with deficits in the three preceding years). The increase in our gold and dollar reserves was £576 million, compared with a loss of £3 million in 1949 (and much larger losses in 1948 and 1947). If, however, the White Paper on the Balance of Payments (Command 8201, His Majesty's Stationery Office) is read item by item—rather as an accountant reads a trading or profit and loss account—some reservations begin to assert themselves. Thus, visible trade showed a deficit as large as in 1949, for imports exceeded exports by £153 million, the favourable balance on current account being entirely due to a surplus on invisible items of £382 million. Even apart from the force of other events, especially rising import prices, we are now deliberately aiming at a mere balance on current account in 1951, thus releasing resources from exports to rearmament industry at home, so that the international accounts for the present year are bound to look very much less satisfactory. And accounting for £472 million of the gain in gold and dollars were the following items:

| | £ million |
|---|---|
| Grants from U.S.A. under the European Recovery Programme ... ... | 248 |
| Increase in sterling liabilities (produced otherwise than by net borrowing from abroad (e.g. by sterling area deposits in London) ... | 224 |
| | 472 |

This figure of £472 million is, in effect, the total received by us from abroad on investment account. This total represents purely financial transactions, so far as we are concerned, not the return for effort and output—and it is a total which might change dramatically in future. For example, the cessation of Marshall Aid will obviously reduce the first item to very small proportions this year and if sterling area countries suffered a reversal of the very high prices they are receiving for their primary products in U.S.A. they would no longer deposit large sums in London.

The reconciliation with the figure of £229 million, the favourable balance on current account, may be made thus :

| | | £ million |
|---|---|---|
| Receipts from abroad on Investment Account (as above) ... ... ... | | 472 |
| Grants, etc., by United Kingdom abroad (including European Payments Union) ... | 109 | |
| Net lending by United Kingdom abroad ... | 16 | |
| Payments abroad on Investment Account ... ... | | 125 |
| Net receipts from abroad on Investment Account ... | | 347 |
| Net receipts from abroad on Current Account (i.e. favourable balance on current account—see above) | | 229 |
| Gain in gold and dollar reserves ... ... ... | | 576 |

An accountant should look at the balance sheet, as well as the trading or profit and loss account. The main items he will see there are the total of gold and dollar reserves—increased by the £576 million to £1,178 million —and, a far less satisfactory one, the total of sterling liabilities, increased to the enormous figure of £4,333 million.

### The Society's Annual Meeting

The sixty-sixth annual general meeting of the Society of Incorporated Accountants will be held at 2.30 p.m. on Wednesday, May 23, in the Hall of the Chartered Auctioneers' and Estate Agents' Institute, 29, Lincoln's Inn Fields, London, W.C.2 (by kind permission of the Council of that Institute). It will be followed by an extraordinary general meeting of members. At both meetings the chair will be occupied by Mr. A. Stuart Allen, F.S.A.A., President of the Society.

Sir Thomas Keens, D.L., J.P., F.S.A.A., President of the Incorporated Accountants' Benevolent Fund, will preside at the annual meeting of subscribers and donors to the Fund, which will be held after the Society's meetings, at about 4.00 p.m.

### Information, Please

More and more companies are giving turnover figures in their accounts. In pre-war days the common argument against such a step was that it played into the hands of competitors and would-be entrants into the industry. Yet in April we had reports published by two giant competitors, *Ford Motor* and *Vauxhall Motors*, giving total income figures. Those of the latter company were given to the nearest £, although their total ran well into eight figures. Many other leaders of British industry have been equally forthcoming. It might be contended that there is no danger to them because of their size ; the answer to this is that size and strength are not synonymous, and that all public companies are compelled to display their financial strength annually to both shareholders and competitors. Is there, in fact, any objection to the publication of the trading account ? Why not the whole loaf, instead of just a slice of bread, even if the slice is thicker than it used to be ?

Even to pose these questions will, we imagine, be anathema to some. To set the precedent of publishing annually a detailed analysis of " where the money goes " is to run the risk that the directors may be put on the rack at company meetings in the event of a slump. Considerations similar to these explain why some concerns refuse to adopt the tabular presentation which shows in bold type the capital employed.

While preserving an open mind on this subject, it is felt that even more important these days than an analysis of turnover is a presentation of what happened to the money that went back into the business, in order to illustrate the increasing burden of financing trading assets and the difficulty of setting aside sufficient sums for the replacement of fixed assets.

### Steel Companies' Accounts

The annual general meeting of *Burnell and Co.,* which was recently held, was the first meeting of a nationalised steel company. A member of the Steel Corporation and its Assistant Secretary attended.

It is understood that it was made clear at the meeting that the Corporation has no objection to publication of the accounts of nationalised steel companies in the previously established form. While the freedom of the nationalised companies to issue their reports and accounts in their own form and design is from one point of view highly desirable, the advent of nationalisation might have produced a welcome movement towards uniformity and increased informativeness. Perhaps a way will later be found to bring about that result without serious damage to the individuality and discretion of the companies.

### Company Subscribing to Memorandum of another Company

The Registrar of Companies has been asked whether a company may be a subscriber to the memorandum of association of another company and, if so, whether it should be included in reckoning whether the minimum number of subscribers required under subsection 1 (1) of the Companies Act, 1948, exists. He has replied that he is advised that as a company which is authorised by its constitution to hold shares may be a member of another company, it appears to follow that it may subscribe its name to the memorandum of association of another company and may be included in the statutory number of subscribers.

## SHORTER NOTE

### Nearly 8,800 Incorporated Accountants

The Society of Incorporated Accountants has issued its *List of Members—1951*. The volume, which is produced in the same attractive format and blue cloth cover as last year, runs to nearly 800 pages. It gives the names and addresses of all the 8,777 members of the Society and the firm names of those members in practice. An alphabetical arrangement is followed by a topographical one.

The *List* is corrected to November 1, 1950, when there were 1,910 Fellows, 6,866 Associates and one Honorary Member.

# ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

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## *Inflation and Investment*

By an intricate and hazardous piece of statistical deduction, Mr. Hugh Gaitskell concluded that his Budget needed to raise £140 million a year to close the "inflationary gap" and he levied new taxation to that amount. Our financial statistics are not yet precise enough—despite the great advances made in social accounting techniques—for the size of the gap to be unequivocably estimated, and no one can positively say whether it is really as large as £140 million, or substantially larger. Nor will events decide the issue, for it is hardly any easier to measure the gap when looking backwards. Even if, against all expectations, prices were kept stable, that would not prove that fiscal austerity had closed the gap, and if prices rise further, as they certainly will, that would not mean that the Chancellor's estimate was wrong. For he was seeking only to neutralise excessive monetary demand, not higher costs, and he defined the inflationary gap accordingly. "The Budget must ensure," he said:

> after taking into account any rise in money incomes, including that automatically generated by the rise in production, that what is spent at home is enough, but no more than enough, to buy, *at prices which cover their costs* [our italics] the goods and services we can afford to buy at home.

Without entering into the technical question whether the economics of the former economics don is sound at this point—firstly, in making a rigid distinction between the inflation of demand and the inflation of costs and, secondly, in arguing that to neutralise rising import costs through the Budget would produce unemployment—it is clear that costs will continue to mount and that, therefore, prices will continue to rise. In the way in which the ordinary man understands the word "disinflationary," namely, as preventing inflation, the 1951 Budget was not a disinflationary Budget, nor did it set out to be one.

We leave aside this point, important though it is. We also note only incidentally that the estimate of £140 million for the inflationary gap, in the Chancellor's sense of the term, optimistically assumed, among other things, that productivity would rise by 4 per cent. in the year and that savings by companies and persons would go up by £200 million. The salient issue that then still remains is why the conditions are such that it is necessary for £140 million of monetary demand to be absorbed by the Chancellor in order to prevent an inflationary pressure from the side of demand. Why should he have to produce a Budget which on the least favourable definition of the term "Budgetary surplus" gave a surplus of £39 million and on the most favourable definition one of £224 million? Without the additional £140 million of taxes in 1951-52, he would, on the least favourable definition, have covered his budgeted expenditure by running a deficit of £101 million (that is, by borrowing that amount), or, on the most favourable definition, by reducing his surplus to £84 million. How was this easing of the taxpayers' burden ruled out by the underlying economic circumstances?

If the total of Government expenditure were reduced, it would be possible still to absorb the £140 million of purchasing power through the tax system without increasing taxes as a whole. For our part, we continue to support pleas for all possible retrenchment in Government spending. But it is important to remember that the policy and actions of the Government affect not only the amount of savings: they affect equally the amount of investment. Some 60 per cent. of expenditure on fixed assets is outlaid by the Government or by nationalised undertakings, only about 40 per cent. by private industry. It has become usual to refer to the State sector of the economy as comprising only 20 per cent. of the total. So it does, in terms of employment and, probably, of output. But it absorbs three times that proportion of new capital expenditure! Moreover, something approaching one-half of its capital expenditure goes in unproductive directions—on houses, education, and so on. The remainder is largely in public utilities.

This suggests that it is Government investment which must largely be accounted responsible for the inflationary gap. By the same token, it is surely to reductions in Government investment that we should look for an important contribution towards its closing, rather than to increased savings induced by still higher taxation. Even if the Government's current expenditure through the Budget is really incapable of being seriously reduced, it is hard to believe that State investment is at the lowest practicable figure. Yet the portents are that private investment, not State investment, is to be rigorously curtailed, despite the obvious dependence of the country upon its manufacturing potential. The disappearance of the initial allowances next year, involving, in effect, a wholesale transfer of £170 million of funds from private businesses to the State, will facilitate this process, and, contrary to the Government's expectations, the increased Profits Tax may work in the same way. It is clear, indeed, that official policy, far from aiming at easing the problems of businesses in financing their re-equipment and plant improvements, is aiming at aggravating them. Rearmament necessarily makes its demand for part of the resources available for investment—but it is a demand which is reflected throughout private industry. The conclusion seems inescapable that a long-term change of the position of the nation's investment is taking place: the long-term consequences of that change are likely to be even more significant than the short-run inflationary pressure which they produce.

# The 1951 Budget

AS IS USUAL NOWADAYS THE BUDGET LEAVES MANY OF THE technicalities to be filled in when the Finance Bill is available. It tells enough, however, for the main changes affecting the professional accountant to be set out fairly fully.

### *Income Tax*

Each of the three rates is increased by 6d., so that for 1951-52 the rates of charge on individuals will be : £50 at 3s., £200 at 5s. 6d., and the balance at the standard rate of 9s. 6d.

The allowance for a married man is increased to £190 ; the child allowance to £70 (the maximum income of the child being likewise increased to £70).

The dependent relative allowance is unchanged, save that the maximum allowance will be given where the relative's income does not exceed £80 (with marginal relief above that point so that the allowance plus the relative's income equals £130). This is to meet the increase in contributory pensions (single persons) to £78 a year.

For P.A.Y.E. the adjustments arise in the week commencing May 25, so that the differences from April 6 to that date will all fall in one week.

The "small income" marginal relief for incomes between £135 and £160 is revised so that the tax payable is not to exceed three-tenths of the excess of the income over £135.

### *Sur-tax*

The rates for 1950-51 remain unchanged from those in operation in 1949-50 ; the rates for 1951-52 are also to be the same, save that the 10s. 6d. rate necessarily disappears, leaving all income over £15,000 chargeable at 10s.—a total tax of 19s. 6d. The Chancellor did not mention that the 19s. 6d. burden will now first operate on an income of £15,001 instead of £20,001. It is unusual to fix the sur-tax rates in advance like this—it was done only once before, in the Finance (No. 2) Act, 1945.

### *Income Tax and Sur-tax*

It is proposed to give statutory effect to the arrangement with the building societies. From the wording of the resolution it seems that this is simply to give effect to the present arrangement and does not, as was expected, make it necessary to gross up for sur-tax purposes the dividends and interest received. The actual amount paid is to be available for the comparison with annual payments for the purposes of General Rules 19 and 21 ; at present the gross equivalent is available in certain cases.

New provisions are also to be made concerning the deduction of tax by paying agents from dividends paid by certain companies outside this country ; the taxation of persons employed in this country by Commonwealth Governments in trading or business undertakings ; and the treatment of new sources of investment income (taking care of a recent decision against the Crown !).

### *Income Tax and Profits Tax*

It is proposed to suspend all initial allowances on industrial

TABLE A

| | | 25% | | 30% | | 50% |
|---|---|---|---|---|---|---|
| Profits | | £100,000 | | £100,000 | | £100,000 |
| Distribution (gross) | | 50,000 | | 50,000 | | 50,000 |
| P.T. | | £25,000 | | £30,000 | | £50,000 |
| *Less* N.D.R. | 15% | 7,500 | 20% | 10,000 | 40% | 20,000 |
| | | 17,500 | | 20,000 | | 30,000 |
| I.T. | (on £82,500) | 37,125 | (on £80,000) | 36,000 | (on £70,000) | 33,250 |
| Total tax | | 54,625 | | 56,000 | | 63,250 |
| *Net* dividend | | 27,500 | | 27,500 | | 26,250 |
| Total paid away | | 82,125 | | 83,500 | | 89,500 |
| Profits retained | | 17,875 | | 16,500 | | 10,500 |
| | | £100,000 | | £100,000 | | £100,000 |
| *Proof*: Non-distributed profits | | £50,000 | | £50,000 | | £50,000 |
| *Less* P.T. | | 17,500 | | 20,000 | | 30,000 |
| | | 32,500 | | 30,000 | | 20,000 |
| *Less* I.T. | | 14,625 | | 13,500 | | 9,500 |
| Profits retained | | £17,875 | | £16,500 | | £10,500 |

buildings and structures, on machinery or plant, and on mines and oil wells, in respect of expenditure incurred after April 5, 1952. In general, this will affect few cases before 1953-54.

### *Profits Tax*

The increase in the rate from 30 to 50 per cent. as from January 1, 1951, will hit heavily those companies which distribute most of their profits. It is true that the increase can be avoided by not distributing profits, but it is difficult to decrease dividends, particularly as many retired people rely on them for their living expenses. The relative figures are illuminating—taking a case where all profits are distributed and ignoring "preceding year" problems:

| | Original 25% rate | 30% rate | New 50% rate |
|---|---|---|---|
| Profits ... ... | £100,000 | £100,000 | £100,000 |
| Profits tax ... ... | 21,739 | 25,000 | 35,714 |
| Maximum distribution (gross) ... | £78,261 | £75,000 | £64,286 |

| | | | |
|---|---|---|---|
| *Proof:* Tax on £100,000 ... ... | £25,000 | £30,000 | £50,000 |
| Non-distribution relief (i.e., on the P.T.) ... | 15% 3,261 | 20% 5,000 | 40% 14,286 |
| P.T. ... ... | £21,739 | £25,000 | £35,714 |
| Total payments out of profits: | | | |
| P.T. ... ... | £21,739 | £25,000 | £35,714 |
| I.T. ... ... | 35,217 | 33,750 | 30,536 |
| Total tax ... ... | 56,956 | 58,750 | 66,250 |
| *Net* dividend ... | 43,044 | 41,250 | 33,750 |
| | £100,000 | £100,000 | £100,000 |

Where all the profits are distributed (and there is no franked investment income) the amount needed to pay profits tax is all that attracts the 10 per cent. rate; the rest attracts the full rate.

TABLE B

| | | 30% | | | 50% | |
|---|---|---|---|---|---|---|
| Profits ... ... ... ... ... ... | | £10,000 | | | £10,000 | |
| Abatement (no franked investment income) ... | | 400 | | | 400 | |
| | | £9,600 at 30%= | £2,880 | | £9,600 at 50%= | £4,800 |
| Gross relevant distribution ... ... ... | £7,584 | | | £6,532 | | |
| Net do. $\frac{96}{100}$ thereof ... ... ... ... | | 7,281 | | | 6,271 | |
| | | £2,319 at 20%= | 464 | | £3,329 at 40%= | 1,332 |
| P.T. ... ... ... ... ... ... | | | 2,416 | | | 3,468 |
| I.T. ... ... ... ... ... ... | | (on £7,584) | 3,413 | | (on £6,532) | 3,103 |
| Total tax ... ... ... ... ... | | | 5,829 | | | 6,571 |
| Net dividend ... ... ... ... ... | | | 4,171 | | | 3,429 |
| | | | £10,000 | | | £10,000 |
| Profits ... ... ... ... ... ... | | £5,000 | | | £5,000 | |
| Abatement (no F.I.I.) ... ... ... ... | | 1,400 | | | 1,400 | |
| | | 3,600 at 30%= | £1,080 | | 3,600 at 50%= | £1,800 |
| G.R.D. ... ... ... ... ... | £4,056 | | | £3,603 | | |
| N.R.D. $\frac{36}{50}$ thereof ... ... ... ... | | 2,920 | | | 2,594 | |
| | | £680 at 20%= | 136 | | £1,006 at 40%= | 403 |
| P.T. ... ... ... ... ... ... | | | 944 | | | 1,397 |
| I.T. ... ... ... ... ... ... | | (on £4,056) | 1,825 | | (on £3,603) | 1,711 |
| Total tax ... ... ... ... ... | | | 2,769 | | | 3,108 |
| Net dividend ... ... ... ... ... | | | 2,231 | | | 1,892 |
| | | | £5,000 | | | £5,000 |

Compare this with a case where, say, 50 per cent. of the profits are distributed. (See Table A, page 169.)

It will be seen that the maximum increase in dividend would be from £27,500 (net), leaving a reserve of £16,500, to £33,750 (net), leaving nothing for reserve.

Paying away half the (gross) profits undivided leaves only 10½ per cent. for reserves under the new rate of tax.

The small business distributing all its profits is illustrated in Table B, page 170.

On the other hand there is some easement in the promise that the maximum directors' remuneration to be allowed in the case of a director-controlled company is to be increased where there are two full-time working directors (excluding whole-time service directors) to £3,500, and where there are more than two such directors, to £4,500—the other limits remaining. We await the Finance Bill to see the conditions.

As was the case when the previous increase occurred, provision is to be made to tax at the higher rate dividends now declared for periods prior to April 10 of higher amounts than those for the preceding chargeable accounting period.

Certain utility undertakings—mainly bus and water—are to be liable to profits tax like nationalised undertakings, i.e., at 10 per cent.

*Anti-avoidance Provisions*

Provision is to be made to provide against avoidance of Profits Tax, in particular against arrangements for reducing Profits Tax liability by the issue of bonus shares coupled with redemption of capital, and also against avoidance of both Profits Tax and income tax by switching profits from one associated concern to another, where the associated concerns are under mutual control.

*Estate Duty*

Provision is to be made to counteract a recent decision in the case of British Government securities exempted from duty when in the beneficial ownership of persons neither domiciled nor ordinarily resident in the United Kingdom; the beneficial ownership is to be that immediately before, not after, the death.

As from April 11, 1951, claims for overpayments or underpayments of estate duty are to be determined on the view of the law adopted when the duty was paid or accepted; subsequent changes of view are to be ignored. (Compare the position for income tax.)

# Budget Estimates, 1951-52

## A. ORDINARY REVENUE AND EXPENDITURE

**Estimated Revenue**

| | £000 | £000 |
|---|---|---|
| *Inland Revenue—* | | |
| Income Tax | 1,624,750 | |
| Sur-tax | 128,000 | |
| Death Duties | 180,000 | |
| Stamps | 55,000 | |
| Profits Tax and Excess Profits Tax | 312,650 | |
| Other Inland Revenue Duties | 500 | |
| Special Contribution | 1,500 | |
| Total Inland Revenue | | 2,302,400 |
| *Customs and Excise—* | | |
| Customs | 930,500 | |
| Excise | 720,500 | |
| Total Customs and Excise | | 1,651,000 |
| Motor Vehicle Duties | | 62,000 |
| Total Receipts from Taxes | | 4,015,400 |
| Sale of surplus war stores | | 20,000 |
| Surplus receipts from certain trading services | | 50,000 |
| Post Office (Net Receipt) | | 5,400 |
| Broadcast Receiving Licences | | 13,600 |
| Receipts from Sundry Loans | | 27,000 |
| Miscellaneous | | 105,000 |
| Total Revenue | | 4,236,400 |

**Estimated Expenditure**

| | £000 | £000 | £000 |
|---|---|---|---|
| Debt Charge | | | 535,000* |
| Payments to Northern Ireland Exchequer | | | 38,000 |
| Miscellaneous Consolidated Fund Services | | | 11,000 |
| Total | | | 584,000 |
| *Supply Services—* | | | |
| *Defence—* | | | |
| Army Votes | 418,800 | | |
| Navy Votes | 278,500 | | |
| Air Votes | 328,750 | | |
| Ministry of Supply (Defence) | 81,500 | | |
| Ministry of Defence | 6,212 | | |
| | | 1,113,762 | |
| Margin for Defence and Civil Defence Supplementary Estimates | | 160,000 | |
| *Civil—* | | | |
| I. Central Government and Finance | 18,521 | | |
| II. Commonwealth and Foreign | 95,642 | | |
| III. Home Department, Law and Justice | 66,561 | | |
| IV. Education and Broadcasting | 277,898 | | |
| V. Local Government and Planning, Housing, Health, Labour and National Insurance | 870,507† | | |
| VI. Trade, Industry and Transport | 146,091 | | |
| VII. Common Services (Works, Stationery, etc.) | 67,356 | | |
| VIII. Non-Effective Charges (Pensions) | 93,807 | | |
| IX. Supply, Food and Miscellaneous Services | 665,453 | | |
| | | 2,301,836 | |
| *Tax Collection—* | | | |
| Customs and Excise and Inland Revenue Votes | | 37,323 | |
| | | | 3,612,921 |
| Total Expenditure | | | 4,196,921 |
| Surplus | | | 39,479† |
| | | | 4,236,400 |

* In addition £46 million for Interest of the National Debt will be met from receipts under various Acts authorising such application.

† These figures take no account of the reduction in the Exchequer contribution to the National Insurance Fund, in respect of which legislation will be submitted to Parliament shortly.

C

## B. SELF-BALANCING REVENUE AND EXPENDITURE

| | £000 |
|---|---|
| Post Office Revenue required to meet Post Office expenditure .. .. .. | 179,431 |
| Excess Profits Tax, Post-war refunds (part deducted for tax) .. .. .. | 4,900 |
| Total .. .. .. .. .. .. | 184,331 |

# 1950-51 Out-turn and 1951-52 Budget Estimate

## (New (alternative) accounts)

### REVENUE ITEMS

| Receipts | 1950-51 Actual (£ million) | 1951-52 Estimate (£ million) | Payments | 1950-51 Actual (£ million) | 1951-52 Estimate (£ million) |
|---|---|---|---|---|---|
| Tax Revenue* .. .. .. .. | 3,730 | 4,015 | Interest on Debt* .. .. .. .. | 478 | 515 |
| Broadcast Licences* .. .. .. | 13 | 14 | Interest outside Budget .. .. | 37 | 46 |
| Sundry Loans (Interest)* .. .. | 9 | 9 | Post-war Credits .. .. .. .. | 17 | 17 |
| Miscellaneous* .. .. .. .. | 20 | 54 | Other Expenditure* .. .. .. | 2,736 | 3,356 |
| Interest outside Budget .. .. | 37 | 46 | | | |
| Housing receipts from Votes .. | 20 | 20 | | | |
| Total Revenue Receipts .. | 3,829 | 4,158 | Total Revenue Payments .. | 3,268 | 3,934 |
| | | | Surplus .. .. | 561 | 224 |
| | 3,829 | 4,158 | | 3,829 | 4,158 |

### LOANS AND OTHER NON-REVENUE ITEMS

| Receipts | 1950-51 Actual (£ million) | 1951-52 Estimate (£ million) | Payments | 1950-51 Actual (£ million) | 1951-52 Estimate (£ million) |
|---|---|---|---|---|---|
| Surplus Stores* .. .. .. .. | 45 | 20 | Sinking Funds* .. .. .. .. | 19 | 20 |
| Trading Services and Post Office (Net Receipt)* .. .. .. .. | 82 | 55 | Export Guarantees .. .. .. | 9 | 8 |
| Sundry Loans (Principal)* .. .. | 18 | 18 | Excess Profits Tax Refunds .. .. | 10 | 6 |
| Miscellaneous* .. .. .. .. | 61 | 51 | War Damage .. .. .. .. | 94 | 87 |
| Export Guarantees—Repayments .. | 1 | 1 | Capital Items in Civil Supply Expenditure | 80 | 110 |
| Local Authorities—Repayments .. | 8 | 11 | Loans, etc., in Civil Supply Expenditure | 40 | 50 |
| Coal Nationalisation—Repayments .. | 7 | 5 | Rise in trading stocks, etc. .. .. | −108 | 3 |
| Film Corporation—Repayments .. | — | 1 | Stockpiling of Strategic Reserves .. | 13 | 143 |
| | | | Advances for Temporary Housing, etc. .. | 6 | 7 |
| | | | Loans to Local Authorities .. .. | 313 | 300 |
| | | | Loans for New Towns Development .. | 5 | 18 |
| | | | Loans to Film Corporation .. .. | 1 | 2 |
| | | | Town and Country Planning—Issues to Central Land Board .. .. .. | — | 12 |
| | | | Coal Nationalisation—Working Capital, etc. | 9 | 7 |
| | | | Raw Cotton Commission—Working Capital | 23 | 40 |
| | | | Overseas Resources— | | |
| | | | Colonial Development .. .. .. | 8 | 16 |
| | | | Overseas Food .. .. .. .. | 7 | — |
| | | | Armed Forces—Housing .. .. .. | 7 | 14 |
| Total Non-Revenue Receipts .. | 222 | 162 | Total Non-Revenue Payments .. | 536 | 843 |
| Excess of Non-Revenue Payments over Receipts .. .. .. .. | 314 | 681 | | | |
| | 536 | 843 | | 536 | 843 |
| Total Receipts .. .. .. .. | 4,051 | 4,320 | Total Payments .. .. .. .. | 3,804 | 4,777 |

Items marked * shown in the "above-the-line" account in the old (conventional) accounts (*plus* expenditure items of £160 million for 1951-52 (£120 million for 1950-51) on capital items in civil supply expenditure; £3 million (£108 million) on rise in trading stocks; and £143 million (£13 million) on strategic stockpiling).

| | | |
|---|---|---|
| "Overall" Deficit .. 1951-52 £457 mill. | "True Revenue" Surplus 1951-52 £224 mill. | "Above-the-line" Surplus 1951-52 £39 mill. |
| "Overall" Surplus .. 1950-51 £247 mill. | "True Revenue" Surplus 1950-51 £561 mill. | "Above-the-line" Surplus 1950-51 £720 mill. |

# The Law of Chance

By ERNEST EVAN SPICER, F.C.A.

If we ask the average man whether or no he is superstitious, he will probably reply in the negative, and yet, as everybody knows, it is an undoubted fact that most men and all women are unquestionably superstitious.

Why this should be the case is a question difficult to answer, because most superstitions are so absolutely childish that it is inconceivable that any intelligent person should really believe in them, when he comes to think about them calmly and soberly. To choose a very notable example, the number thirteen is regarded in some European countries as exceptionally lucky, whereas in this country it is well-nigh impossible to persuade thirteen otherwise rational beings to sit down together at the same dinner table. It is obvious that this particular number cannot be both lucky and unlucky and it is surely straining credulity unduly to suggest that latitude or longitude can influence the matter. All that can be said in support of this popular superstition is that it is undoubtedly uncomfortable and often even unlucky to sleep thirteen in a bed !

A strange and inexplicable peculiarity also distinguishes superstitious people, for while they are always ready to laugh at the absurdities of the other man's superstitions, they cling tenaciously to their own. This has been observed throughout the ages, not only amongst persons of low intelligence, but also amongst those who have stood head and shoulders above their fellow mortals.

Does not Shakespeare mark this same weakness in Julius Cæsar ?

Did not Calpurnia thrice in her sleep cry out?

" Help, ho ! they murder Cæsar ! "

And did not her mighty spouse, on sober reflection reply ?

" How foolish do your fears seem now Calpurnia
I am ashamed I did yield to them "—

And yet, when thinking of his wife's childlessness, he says :

" Forget not, in your speed, Antonius
To touch Calpurnia ; for our elders say
The barren, touched in this holy chase
Shake off their sterile curse."

Even Isaac Newton, the philosopher, could not claim for himself an absolutely clean bill of health in the matter of superstition, although he had no use for the foibles of others. Mr. Samuel Pepys for many years carried on his person a hare's foot, as a charm against colic, and the great Napoleon declared that a star, seen in broad daylight, was his particular star, which heralded the ascendancy of his fortune.

There are doubtless many to-day who ridicule the credulity of the inimitable diarist, but nevertheless carry on their own persons a lucky coin or some other equally ridiculous talisman. Similarly there are doubtless many others who smile at the assurance of the great soldier, knowing full well that his imagined star was none other than the planet Venus—bound by the universal law of gravitation to be in the exact spot where he and his officers saw it—who may themselves to-day consult a so-called astrologer.

This almost universal belief in something outside law, known as chance or luck, influencing the fortunes of individuals for good or ill, is indeed strange to those who see in all phenomena the operation of law, even when the exact nature and operation of the law be not fully understood.

That a man may have long runs of good or bad luck in matters of pure chance goes without saying, but that a man can be lucky or unlucky by nature, or that past good or evil fortune can possibly influence future turns of fortune's wheel, is demonstrably false.

When one considers the myriads of fortuitous happenings, which daily affect the lives of the people of this world, it would indeed be nothing short of miraculous if the most extraordinary combination of events did not arise from time to time. In this connection it must not be forgotten that many combinations of events are actually what we choose to call very extraordinary, but because there is nothing about them which immediately attracts the attention they pass unnoticed and thus are not regarded as such.

To take a very simple example, let us suppose that four people sit down this very afternoon to play bridge. The cards are shuffled and each player is dealt thirteen cards.

There is nothing strikingly peculiar about any of the four " hands " and yet it may well be that notwithstanding the untold millions of games of bridge that have been played during the past century, no four players have ever held exactly similar " hands." On the other hand, it was reported in the newspapers quite recently that, after proper shuffling, one complete suit had been dealt to each of the four players at the bridge table.

Now this was a combination of the cards which did attract attention, and assuming the facts, as recorded, to be true, it was undoubtedly a very remarkable, but by no means a miraculous event, since, although it was extremely unlikely to occur at any given time, it was bound to happen sooner or later. Over a very long period of time, every possible combination of the 52 cards must eventually be dealt.

And yet we have the authority of that great scientist and mathematician, Professor J. B. S. Haldane, for saying that the odds against the happening of this particular event are no less than 4,470,400, followed by 21 noughts, to one.

There must be—at any given moment—a large number of individuals who have been, up to that time, remarkably lucky or unlucky, in matters of pure chance, but this does not mean that they will be similarly lucky or unlucky in the future, nor does it give those who have been singularly fortunate the slightest justification for taking credit to themselves for their past good fortune. No reasoning person could possibly suggest that a man who had bought a ticket in the Calcutta Sweepstake and had won the first prize, would be more likely to win a similar prize the following year, than would any other person risking ten rupees.

Chance is governed by inexorable law in the same manner as is every other phenomenon of nature.

It cannot, however, be reduced to a system enabling the individual to profit by it with certainty .

Throughout the ages, gamblers have attempted to prove the contrary and have formulated doctrines, such as the "maturity of the chances" and being "in the vein," to guide them in their efforts to solve the insoluble problem —but in vain. All these doctrines and rules have been weighed in the balances and found wanting, not only at the bar of reason, but also in the light of actual experience.

Let us choose a very old and familiar example to demonstrate the above remarks.

#### ILLUSTRATION

Let us assume that a vast army of men and women, say 20 million in all, engage in that highly intellectual pastime known as a progressive "dice throwing" drive, and that after each throw, the winner moves up and the loser moves down to another table. Let us also assume that there are to be twenty throws in all and that one or other of each couple opposing one another must rise the winner on each of the twenty throws. Further, let it be understood that everything is fair and above board and that the result of each throw is pure chance, devoid of the smallest element of skill or fraud.

In these circumstances it is clear that after the first throw, there will be 10 million lucky and a similar number of unlucky throwers.

After moving to other tables and thus encountering fresh opponents, our 20 million players throw a second time.

Again there will be 10 million who will win and 10 million who will lose. Of the 10 million who won on the occasion of the first throw, approximately 5 million will likewise win a second time, because each will have had an equal chance of winning or losing and, as we are assuming very large numbers, we can be quite sure that the law governing probabilities will have ample scope to assert itself.

Actually, of course, the number will not be exactly 5 million, but it will certainly be very nearly that figure and we shall be perfectly justified if we work on the assumption that it is exactly correct.

In all chance problems, a close approximation to the truth is all that can be expected or, in fact, required.

Thus, after the second throw, the players will fall automatically into four divisions and the position will be approximately as follows :

*Position after Second Throw*

5 million will have won both throws
5 million will have lost both throws
5 million will have won the first and lost the second throw
5 million will have lost the first and won the second throw

20

After the third throw, the players will fall automatically into eight divisions and the position will be approximately as follows :

2½ million will have won all three throws
2½ million will have lost all three throws
2½ million will have won the first two throws and lost the third
2½ million will have lost the first two throws and won the third
2½ million will have won the last two throws and lost the first
2½ million will have lost the last two throws and won the first
2½ million will have won the first throw, lost the second and won the third
2½ million will have lost the first throw, won the second and lost the third

20

*The Position after the Third Throw* (*Summarised*)

2½ million will have won all three throws
2½ million will have lost all three throws
7½ million will have won two throws and lost one
7½ million will have lost two throws and won one

20

After the fourth throw, the players will fall automatically into 24 divisions, but the position can be summarised approximately as follows :

*The Position after the Fourth Throw* (*Summarised*)

1¼ million will have won all four throws
1¼ million will have lost all four throws
5 million will have won three out of four throws
5 million will have lost three out of four throws
7½ million will have won two throws and lost two throws

20

*Note : All the 24 possible combinations will be included in the above summary.*

In a similar manner we could, theoretically, continue to deal with the results up to and after the twentieth throw and examine all the combinations into which the players would eventually be divided. This, however, would in practice prove overwhelming, since the number of these combinations would exceed a million.

Fortunately we are relieved of all trouble in the matter because that very great astronomer and mathematician, the late Mr. R. A. Proctor, who examined this problem, has provided us with a considerable amount of information regarding the final result.

Apart from the readily ascertainable fact that out of the 20 million players, the number of those who would be successful or unsuccessful at every throw would approximate twenty, he informs us that the largest individual class would be that represented by those who had won exactly as many throws as they had lost.

These would number nearly 3,700,000. There would be about 3,400,000 who had won eleven throws and had lost nine and a similar number who had lost eleven throws and won nine.

The number of those who had won a large proportion of the first nine or ten throws and had then lost a large proportion of the remainder, or *vice versa*, would also be considerable.

The number of those who had won all the first six throws and then lost all the rest, or who had won the first seven or eight throws, or any number up to, say, fourteen, losing thence to the end, would be approximately 170.

There would have been about forty players who had won and lost, or lost and won, alternate throws throughout, and a similar number who had won and then lost, or lost and then won, five throws, throughout, in succession.

In fact, all possible combinations would be represented in the final result and thus every varying degree of fortune, good, bad, indifferent, or changing, would be experienced by the various players.

As has been demonstrated above, some few will have been extremely lucky, whilst a similar number will have been extremely unlucky in the progressive dice drive, but as this was inevitable from the start (having regard to the magnitude of the numbers involved) the result must be attributed to recognised law rather than to luck.

No well-managed life assurance office—and we do not include in this category "The Anglo-Bengalee Disinterested Loan and Life Assurance Company"—would admit for one moment that their business was based on luck. On the contrary, they would claim that it was based on those very Laws of Probability which we are considering.

An assurance company cannot influence the Laws of Probability in their own favour, any more than can a frequenter of the casino at Monte Carlo, although, like the Prince of Monaco, they see to it that the odds are always slightly in their favour, and never, if they can help it, against them.

A certain percentage of people will assuredly die prematurely and the assurance company will sustain losses under these particular policies. Such losses, however, are, in reality, the foundation of their prosperity, because if nobody died prematurely the business of life assurance would rapidly lose its attraction.

To some very small extent the truth underlying this statement has been demonstrated in a very curious way during comparatively recent times. Everybody is aware that medical science has advanced rapidly during the past century and in consequence the average expectation of life has risen. The rates formerly charged by the assurance companies thus became gradually somewhat excessive and some adjustment became essential. Instead of making a general reduction in the rates of premium, however, the novel idea of "profit sharing policies" was evolved, and this satisfied all parties. Incidentally, it was far more beneficial to the assurance companies than a reduction in the rate of premium would have been, because whereas the profit element of the policy only operated gradually over a series of years and varied with the prosperity of the company, sometimes even disappearing altogether when the profits fell below a definite datum line, the company enjoyed the use of the otherwise excessive premiums throughout the intervening period.

Let us now consider the doctrine of the "maturity of the chances" and that equally fallacious superstition of being "in the vein" which are deemed by gamblers generally as veritable axioms and which are accepted—at any rate temporarily—by vast numbers of people, who are certainly not gamblers in the recognised sense, but who indulge in a mild flutter when opportunity offers.

Mr. Steinmetz—who in his day was looked upon as a prince among professional gamblers—deals with these matters in his book entitled *The Gaming Table*. He writes:

> Every game of chance presents two kinds of chances that are very distinct—namely, those relating to the person interested, that is the player; and those inherent in the combinations of the game.
>
> First: Though chance can bring into the game all possible combinations, there are nevertheless certain limits at which it seems to stop; such for instance, as a certain number turning up ten times running in succession at roulette; this is possible, but it has never happened.
>
> Secondly: In a game of chance, the oftener the same combination has occurred in succession, the nearer we are to the certainty that it will not recur at the next cast or turn up. This is the most elementary of the theories on probabilities; it is termed "the maturity of the chances." Hence a player must come to the table not only "in luck," but he must not risk his money except at the instant prescribed by the rules of the maturity of the chances. . . .
>
> A prudent player, before undertaking anything, should put himself to the test to discover if he is "in vein" or in luck. In all doubt he should abstain. There are persons who are constantly pursued by bad luck: to such I say—never play. Stubbornness at play is ruin. Remember that fortune does not like people to be overjoyed at her favours, and that she prepares bitter deceptions for the imprudent who are intoxicated by success.
>
> Lastly, before risking your money at play, study your "vein" and the different probabilities of the game, termed as aforesaid, the maturity of the chances.

It is unnecessary to remark that these so-called "axioms" are completely untrustworthy and that they are based, not on reason, but on superstition. Nevertheless, it is worth while to consider them from the point of view of the ordinary man in the street, who, while recognising the weakness of the foundations on which they rest, still clings to belief that there must be something in them.

Let us assume, therefore, that Mr. X, who is spending a brief holiday in the South of France, visits Monte Carlo. Naturally he will wish to look inside the world-famed

casino. He is not a gambler in the proper sense, and has not the slightest intention of losing more than, say, £5, or roughly 5,000 francs, at the tables, and being a cautious man, decides to play on the " even chances."

He strolls up to one of the tables and is informed by some friendly *habitué* standing next him, who has kept a careful record of the winning colours, that " black " has turned up nine times running.

In these circumstances what is Mr. X likely to do?

It is submitted with some little confidence that 99 persons out of 100 would place their 100-franc counter on the " red," thus supporting the theory—fallacious though it be—of the " maturity of the chances."

It may here be remarked that had Mr. X arrived at the " table " just two minutes earlier, and had been told that " black " had turned up eight times running, he would most certainly have staked his money on the " red "—and lost. As things turned out he won his 100 francs and left the casino with the vague feeling that although mathematicians were undoubtedly right in theory, nevertheless in practice there was much to be said in favour of the doctrine of the " maturity of the chances."

Let us now take another example, illustrating the superstition of being " in the vein."

We will assume that our imaginary friend Mr. X, before venturing any portion of the small sum which he is prepared to lose on the " even chances," watches, with the interest of a novice, the play of others at the " table." In particular he observes a good-looking young man playing with the utmost confidence on the " colours " with almost unfailing success, first on the " red," three times in succession; then twice on the " black "; then pausing while the wheel spins thrice, apparently to allow " zero " to turn up, which by chance it does: thus throwing all counters staked on the " colours " temporarily " into pawn "—and then again continuing his successful play.

Is it not probable that our friend Mr. X will reason that as this good-looking stranger is obviously " in the vein " he will do well to follow his lead? He knows that past success cannot influence future turns of the " wheel," but nevertheless he cannot throw off the idea that some men appear to be born lucky and that often an ounce of practice is worth more than a pound of theory.

Anyhow, once again we submit that 99 men out of 100 would be tempted to follow in the footsteps of the successful stranger, thus supporting the " axiom " of being " in the vein."

Before leaving this aspect of the subject, let us examine a very illuminating case in the annals of wagering, which is recorded by Mr. Steinmetz in his book, to which reference has already been made.

He informs us that in the year 1813 a certain Mr. Ogden wagered 1,000 guineas to 1 that " seven " would not be thrown with a pair of dice ten successive times.

The wager was accepted, and wondrous to relate, his opponent threw " seven " nine times running.

At this critical juncture, Mr. Ogden apparently lost his nerve, as well as his faith in the doctrine of the " maturity of the chances," and offered the sum of 470 guineas to cancel the bet.

His opponent being clearly " in the vein," refused the offer, threw a " nine " and handed over to Mr. Ogden his hard " earned by the sweat of his brow " guinea.

Here we have a case where the two so-called axioms conflict with one another in a somewhat unusually sharp manner, a state of affairs which, one might have thought, would weaken one or other of the axioms in the minds of those who, normally, take these doctrines seriously.

Not so, however. If a looker-on (who regarded the " maturity of the chances " as " confirmations strong as proofs of Holy Writ ") had backed his conviction with a side bet and won, he would assuredly have told Mr. Ogden's opponent how foolish he had been in having refused the 470 guineas, when given such a " heaven-sent " opportunity, seeing that the result was an absolutely foregone conclusion.

The probable reply of Mr. Ogden's opponent would have been that although, on this isolated occasion, he had lost, nevertheless, on general principles, being undoubtedly " in the vein " he would have been jeopardising his whole future career as a successful gambler, had he ignored so fundamental a rule.

It is thus clear that the superstitions of the gambler cannot, in any circumstances, be shaken by reasoned argument.

The late Mr. Proctor has made some interesting observations on this remarkable wager.

In the first place he points out that, initially, the wager was manifestly unfair seeing that the odds offered by Mr. Ogden were hugely below the mathematical value of the chance.

With a pair of dice, there are thirty-six possible throws, of which six give " seven " as a total. The chance of throwing " seven " once is, in consequence, 6 to 1 against. The value of the chance of throwing " seven " ten times running is obtained by multiplying six into itself ten times and placing the resulting number under unity. The correct odds against the throwing of " seven " ten times successively with a pair of dice is thus found to be, not 1,000 to 1 against, but actually 60,466,176 to 1 against.

The wager, however, was accepted on the terms of 1,000 to 1 against, and no " sportsman " would dream of questioning subsequently the fairness of odds offered and accepted.

Secondly, Mr. Proctor points out that after " seven " had been thrown nine times running, the mathematical value of the chance of a tenth throw of " seven " was still 6 to 1 against as at the first trial.

One-sixth of 1,001 guineas—the amount of the stakes—namely, 167 guineas, was therefore all that Mr. Ogden need—in strict fairness—have offered to be quit of his wager. So strong, however, was his faith in the superstition regarding " the vein," that he offered, as we have seen, a sum more than 300 guineas in excess of that which, in strict fairness, he was bound to offer.

His opponent, on the other hand, accepted in the first instance a wager which was manifestly unfair to him and then later refused an offer, which was far in excess of anything he could reasonably have demanded, to cancel the wager.

There is a very general belief that, in games of chance, losses and gains must even themselves out in the long run.

This is, of course, true, but the sense in which it is true is not always very clearly understood. We have even heard it remarked—perhaps a little faint-heartedly—by indifferent bridge players, after leaving the club with lightened purses.

To these, we would remark that in no circumstances must bridge be confused with games of chance and that they will most assuredly continue to lose steadily if they play with more experienced players. On the other hand, they will never learn to play bridge well unless they do play with superior opponents. Chance will never enable them to regain their past losses, and so they must decide for themselves whether to confine their attention in the future to "bumble puppy" or to be prepared to pay for their mistakes in the hope of profiting thereby eventually.

In games of pure chance, where skill and experience play no part, the law of probabilities does assure to the player that if he continues long enough—and it may prove a very long road—his losses and gains will be relatively nearly equal.

The kind of equality approached, however, will be one of proportion and not of amount.

To illustrate this truth, supposing the records of the casino at Monte Carlo were obtained for one day, it would be found that the number of times that "red" turned up in excess of "black," or "black" in excess of "red" would not be in a greater ratio than 21 to 20. Assuming the records were obtained for a month, the inequality would be reduced further, and it would be perfectly safe to wager that it would not be greater than that represented by the ratio of 101 to 100. If the period were extended for a year, the disproportion would certainly not be more than that represented by the ratio of 1,001 to 1,000.

In other words, the greater the number of spins, the nearer would the two numbers be in the ratio of exact equality. This does not mean that the numbers would be exactly equal, or that the difference between them would be wholly insignificant. It merely means that the difference would be relatively insignificant.

Thus, supposing over a long period of time the total number of spins of the rontelle wheels at the casino were 20 million, the odds would be heavily in favour of one colour turning up at least 1,000 times more than the other. In such a case "red" might well have turned up 10,000,500 times and "black" 9,999,500. This is very nearly in the ratio of 10,000 to 9,999, or in other words very closely approaching exact equality.

Let us now consider, from a slightly different angle, this general belief that losses and gains must even themselves out eventually.

The inference is that after a certain unspecified time, the player will find himself in exactly the same position as he was when he started on his wagering career. This is far from being true, as can very easily be demonstrated :

(1) The player's means may prove insufficient to enable him to continue until his losses and gains are nearly in the ratio of equality.

(2) Even if he is able to continue to this point, his net loss may still be considerable.

(3) If he is playing at Monte Carlo or elsewhere on the Continent, the odds on the so-called "even chances" are not in reality even. The bank is not a philanthropic institution, and as everybody knows, its profits are large. It follows, therefore, that, notwithstanding the fact that the additional chance reserved to the bank is very small, this minute percentage extended over a long series of spins will eventually make all the difference. That some players will win and win heavily from time to time is, of course, inevitable, but that the majority will lose also goes without saying, since otherwise the bank would sustain a net loss, which is not the case.

It follows from this that although chance results do right themselves, in the sense that they will occur as often, in proportion, as their respective chances warrant, it is absolutely hopeless for a player to place any confidence in this circumstance.

(4) The question naturally arises as to the exact time when the play is supposed to start.

Let us assume that throughout the year 1950 A and B indulge in "dice throwing" during the luncheon hour every working day for 20 minutes, and that on December 31, 1950, it is found that A has won from B, on net balance, the sum of £123 10s. From this it is clear that neither A nor B starts the year 1951 all square. If, therefore, the general belief that losses and gains will even out eventually were true, it would follow that B would end up as great a loser as when he started playing with A on January 1, 1951, since that day might just as well be regarded as the starting date of the play as January 1, 1950.

The idea that a person who starts with an accumulation of losses will sooner or later make good those losses is in direct conflict with the idea that losses and gains will even out over a period of time.

Reference has been made to the casino at Monte Carlo, and it may be interesting to consider whether it would be possible to invent a "System of Play" which on net balance would assure to the player a profit.

It is almost unnecessary to remark that this has been attempted on innumerable occasions by a vast army of optimistic gamblers, and that the result has always ended in failure.

Mathematicians have stated very definitely that it is an impossibility, since although under the Laws of Chance some are bound to win, it is never possible to point to any particular individual as being bound to win. Moreover, the number who will win when the chances are mathematically fair must necessarily be reduced in cases where the chances are mathematically unfair.

Systems of Play often appear on paper to be watertight, but in practice, as soon as the combinations adverse to the particular system turn up, which is inevitable from time to time, the losses sustained, even in cases where automatic stops are introduced to limit those losses, will almost certainly prove, sooner or later, too great for ultimate recovery.

We have before us, as we write, the experience of a man who experimented at Monte Carlo over a period of thirty

years, and who kept a very exact record of his winnings and losses over the entire period.

He adopted what would appear to be a very "safe" system, rendered greatly more so by "automatic stops." He stuck religiously to the System, which must have proved very hard work and almost as tedious as being forced to visit the cinema thrice daily for several years on end, and although at the conclusion of the thirty visits to Monte Carlo his net loss was surprisingly small, nevertheless he sustained a net loss over this long period.

We will now consider the main reasons which prompt men to believe that it is possible to work out such a system—playing only on the so-called even chances—notwithstanding everything which mathematicians say to the contrary.

These reasons may be summarised as follows:

(1) It is possible to devise a system by means of which advantage can be taken of runs on the colour which the player has chosen, thus assuring gains, while avoiding long runs on the opposite colour, involving heavy losses.

(2) Provided the player is warned automatically under the system when to stop any particular bout on which he is engaged, the losses which he will inevitably sustain, when the combinations hostile to the particular system occur, should not prove overwhelming.

(3) The advantages to be derived under (1) above should outweigh the small additional benefit enjoyed by the bank.

Perhaps the best way of demonstrating the fallacies underlying this reasoning will be to describe a "safe" system embodying the above conditions, but which nevertheless does not, and in fact cannot, enable the Laws of Probability on which a life assurance company relies to operate with normal certainty.

We use the expression "normal certainty" advisedly, because clearly, if as a result of the wholesale use of, say, the atomic bomb, one-half of the population of this country were suddenly wiped out, every life assurance company would, of necessity, be overwhelmed.

Our object, therefore, must be to prove our case without, however, having to assume any wholly improbable and devastating state of affairs, which has never happened in the past, and, though theoretically possible, is never likely to happen in the future.

In other words, we must endeavour to show that gambling at Monte Carlo, in spite of the fact that many people must win from time to time, is not a reasonable business risk, no matter what the System of Play may be.

### THE "SAFE" SYSTEM CHOSEN

#### (A) *The Rules of the System*

(1) *Value of each completed game*

Each game is played for ten units.

The unit chosen is 100 francs, or approximately 2s.

(2) *Capital outlay*

The suggested capital needed to try out the system is 80,000 francs, say, £80.

*Note.*—If the system were inherently sound (which in fact is not the case) 80,000 francs should prove a sufficiently large working capital to prove this. Obviously a fixed capital must be assumed.

(3) *Red or black "even" chance*

Play is on one of the "even" chances, say red or black. As red is the more cheerful colour, it is chosen for this illustration.

(4) *The score card*

Each game (played for 1,000 francs) will be recorded on a card ruled as follows:

$$0 - 1 - 2 - 3 - 4 \,\|$$

(5) *Amount of each stake*

The stake will always be represented by the two figures (not crossed out) at the opposite ends of the card.

The first stake will be:

$$0 + 4 = 4 \text{ or } 4 \text{ units} = 400 \text{ francs}$$

(6) *Record of the play*

If the *first* attempt results in a win, the figures at the opposite ends of the card will be crossed out.

The card will then be as follows:

$$\cancel{0} - 1 - 2 - 3 - \cancel{4} \,\|$$

If the *first* attempt results in a loss, the amount of the stake will be entered behind the line ruled on the card with a small 1 above it to indicate that it is a "first" loss.

The card will then be as follows:

$$0 - 1 - 2 - 3 - 4 \,\|\, \overset{1}{4}$$

The second stake will be: $0 + 4 = 4$

If a second loss be sustained the amount of the stake will be entered behind the line with a small 2 above it to indicate that it is a "second" loss.

The card will then be as follows:

$$0 - 1 - 2 - 3 - 4 \,\|\, \overset{1}{4} \;\; \overset{2}{4} \,|$$

(7) *Automatic Stops*

When black (the losing colour) has turned up twice in succession (as shown in the card above) the play stops until after the red has turned up again.

By acting thus the player avoids a long run on black and restricts the number of his losses to 2, whereas if the run is on the red, he benefits throughout.

*Note.*—Two further automatic stops are needed under the system and these are explained later.

(B) THE PLAY

(1) *First game* (all goes well)

The red turns up three times running, the stakes being 4, 4 and 2 respectively. The card will then be as follows :

$$\cancel{0}-\cancel{1}-\cancel{2}-\cancel{3}-\cancel{4}\,\|$$

Thus the player wins 1,000 francs or ten units.

(2) *Second game* (all goes well in the end)

The red turns up twice ; then black twice ; automatic stop ; then black twice ; automatic stop ; then black twice ; automatic stop ; and then red four times running. The card will then be as follows :

$$\cancel{0}-\cancel{1}-\cancel{2}-\cancel{3}-\cancel{4}\,\|\;\overset{1}{\cancel{4}}\;\overset{2}{\cancel{4}}\;\Big|\;\overset{1}{\cancel{8}}\;\overset{2}{\cancel{8}}\;\Big|\;\overset{1}{\cancel{16}}\;\overset{2}{\cancel{12}}\;\Big|$$

Thus the player wins 1,000 francs or ten units.

*Note.*—A combination which is fatal to this system is two blacks, one red, two blacks, one red, etc., since after the player has lost twice he must stop until after red has turned up again. He thus finds himself playing only when the black turns up.

To avoid this the player should cease play and cut his loss as soon as he has six numbers behind the line which are not crossed off.

In the game described above he violated this rule, continuing play after having six numbers behind the line, which were not crossed off. He was lucky, however, in then having four wins running which involved a run of five successive reds.

If the adverse combination of two blacks, one red, had continued, however, with no automatic stops, his accumulated losses might easily have become such as to render it impossible for him to recover the position, without assuming an unreasonably large number of quick games involving long runs on the red.

As it was, the player had, at one moment, an accumulated net loss of thirty-two units, namely forty units of losses less eight units of wins.

Runs of five successive reds turn up every now and then, but not so often as to justify reliance on the occurrence.

(3) *Third game* (all goes badly)

Red turns up ; then two blacks ; automatic stop ; then red ; then black ; then red ; then two blacks ; automatic stop ; then red ; then two blacks ; automatic stop ; then red ; then two blacks ; automatic stop ; then red ; then two blacks ; automatic stop ; then red ; then two blacks ; automatic stop ; then black.

The player then runs short of cash and counters and stops play.

At this juncture the card will be as follows :

$$\cancel{0}\cancel{1}\cancel{2}\cancel{3}\cancel{4}\;\|\;\overset{1}{\cancel{4}}\overset{2}{\cancel{5}}\Big|\overset{1}{\cancel{8}}\Big|\;\overset{1}{\cancel{7}}\;\overset{2}{\cancel{16}}\;\Big|\;\overset{1}{\cancel{11}}\;\overset{2}{\cancel{15}}\;\Big|\;\overset{1}{18}\;\overset{2}{\cancel{35}}\;\Big|\;\overset{1}{29}\;\overset{2}{\cancel{46}}\;\Big|\;\overset{1}{47}\,\overset{2}{65}\;\Big|\;\overset{1}{83}$$

The player has an accumulated net loss of 232 units, = 23,200 francs, which he cannot reasonably hope to recover under a system where each game is played for ten units only.

It will be observed that throughout this game, the player never had more than five numbers behind the line which were not crossed off, and so he never violated the rule calling for the player to cease playing when six numbers uncrossed off appear behind the line. It is clear, therefore, that a further automatic stop is needed to limit the amount of the net accumulated loss, at any one moment. It is suggested that as soon as this amounts to, say, fifty units, this further automatic stop should come into operation.

The player should then stop the game, cut his loss and take a cup of coffee, before starting a new game.

The combination which defeated him in this game was two blacks, two reds, two blacks, two reds, etc.

The point to remember is that the stakes are ever increasing, and because of the automatic stop after two successive losses, one of the two reds, which otherwise would ensure a win, has to be missed.

This particular combination—which in practice is by no means very exceptional—is much more dangerous than the combination two blacks, one red, etc., because it is far less obvious.

It is thus clear that to make the system reasonably safe three automatic stops are needed, as follows :

(*a*) After two successive losses.

(*b*) Whenever there are six numbers behind the line which are not crossed off, the game should be abandoned, or

(*c*) Whenever the accumulated loss equals fifty units the game should be abandoned, even though there are only four numbers behind the line which are not crossed off.

If these rules are strictly adhered to, losses should be kept within more or less reasonable limits, thus giving the player some chance of recovery.

If, however, the player's footsteps are dogged by exceptional ill fortune, right from the start, and in consequence several games have to be abandoned, the accumulated loss on all such games may prove too great to warrant any reasonable hope of recovery within the time limit at his disposal.

In such circumstances the system must be deemed to have failed and the player should leave Monte Carlo.

This particular system does not always fail, however, and we happen to know one man who has visited Monte Carlo eight times and has left the principality on each occasion with a considerable net gain.

His next visit, nevertheless, may demonstrate that notwithstanding past success and all the safeguards with which he surrounds the system, the odds are still in favour of the casino.

> "Our little systems have their day
> They have their day and cease to be."

Gamblers at Monte Carlo fall into two separate and distinct categories ; those who seek intense, though evanescent, excitement, and those who are completely satisfied with a system, which at the worst should prove comparatively inexpensive and which at best should provide them with the best meals in Europe.

It is probable that at least 98 per cent. of the profits of

the casino come from the pockets of those in the former category. This is perhaps the best testimonial that can be given to the " safe " systems.

But we have said enough.

Like the parson who—speaking generally—was against sin, so are we against gambling.

We advise nobody to indulge in this dangerous pastime, but, as we know that there is a touch of the gambler hidden away in everybody's make-up, and moreover as we have ourselves unsuccessfully backed an outsider for the Grand National, we have no intention of " riding " the high moral horse.

We assume that Mr. Rudyard Kipling was right when he wrote :

" If you can make one heap of all your winnings
And risk it on one turn of pitch and toss
And lose, and start again at your beginnings
And never breathe a word about your loss ;

. . . .

Yours is the Earth and everything that's in it
And—which is more—you'll be a Man, my son.

Don't let us, however, forget the " If.".

# Disclaimer of Lease in Bankruptcy

[CONTRIBUTED]

INTERESTING AND DIFFICULT QUESTIONS ARISE WHEN AN original lessee who has assigned his lease—as distinct from the more usual case of one who has sub-let out of it—becomes bankrupt and his trustee in bankruptcy purports to disclaim the lease.

It is important to observe that under the ordinary law of landlord and tenant there exists privity of estate as well as privity of contract between the original lessor and his original lessee. If the original lessee has sub-let there is no alteration in this respect. But it is different if the original lessee has assigned the lease to a third person. Then, while privity of contract still exists between the original lessor and the original lessee, privity of estate does not, since the original lessee has by the assignment divested himself of his interest in the property. There is, however, privity of estate between the original lessor and the assignee, and the assignee accordingly is liable to the lessor on the covenants of the lease. The original lessee is still liable to the lessor notwithstanding the assignment ; this is because of the covenants contained in the lease, in other words, because of privity of contract.

### Disclaimer, not of Lease

When, therefore, there is a disclaimer on behalf of an original lessee who has assigned the lease, the disclaimer, it is submitted, cannot be of the lease as such, since the lease is no longer vested as an estate in the original lessee. It is true, however, that the original lessee is still bound by the covenants contained in the lease. Accordingly the subject matter of the disclaimer made on his behalf can only be, not the lease, but the onerous covenants contained in it, covenants which otherwise would have to be performed by him or his estate.

Where an original lessee goes bankrupt it may be that his trustee in bankruptcy may purport to disclaim the lease itself. Assuming that the disclaimer in such a case *could* extend to the lease, what would be the position ? The estate in the leasehold would thereby be taken away from the bankrupt. It would seem to follow that the assignee would have no longer any interest in the lease. In other words, the leasehold interest would be suspended, attached to no one at all. But this does not mean that the assignee may not still be liable to the lessor on the covenants in the lease, for privity of estate exists between him and the original lessor.

### Effect of Disclaimer

It is to be observed that under sub-Section 54 (2) of the Bankruptcy Act a disclaimer will operate to determine merely the rights, interest and liabilities of the bankrupt and his property in respect of the property disclaimed, and that it will discharge the trustee from personal liability in respect of such property, but the disclaimer will not effect the rights or liabilities of any other persons. Accordingly, it has been held, where there was a sub-lease granted by the bankrupt, that the disclaimer of the lease did not prevent the landlord from distraining for rent or from enforcing covenants against the sub-lessee by proceedings for forfeiture and possession. But however that might be, where a lease is as a result of a disclaimer divorced from the ownership of any individual it is absolutely essential to obtain a vesting order either in the sub-lessee, or in a mortgagee if the lease has been mortgaged, or, it is submitted, in an assignee, *assuming* that the original lessee can disclaim the lease, as distinct from the onerous covenants contained therein.

### Application to Court Desirable

Where there has been a disclaimer of the lease by the trustee in bankruptcy of the original lessee it is obvious that both the original lessor and the assignee should require the trustee to bring the matter into court, under Rule 276 of the Bankruptcy Rules.

When the matter is brought into court the court can determine what is to happen with regard to the vesting of the

lease. After the assignee has been called upon to accept a vesting order in the terms of either proviso (*a*) or proviso (*b*) of sub-Section 54 (6) of the Bankruptcy Act, the court will vest the lease in him if he thus elects. If he refuses to accept the terms proposed he will lose all rights and interest in the lease, which thereupon will revert to the original lessor. Indeed, it may be said that whenever there is a disclaimer and when there are parties other than the original lessee who are concerned—such as a sub-lessee or a mortgagee or an assignee—it is of importance that the whole matter should be dealt with by the court. One of the difficulties that might otherwise arise would be the difficulty in making out a proper title. The disclaimer and the vesting order would be required to appear on the title in order that no subsequent difficulties should arise in the event of any transfer taking place.

### Order as to Incapability of Assessment of Liability

One further point to be noted is that although the original lessor might be entitled to look to the assignee for the performance of the covenants of the lease, yet he will be damnified by a disclaimer on behalf of the original lessee, because he will be deprived of the benefit of the covenants entered into by the original lessee himself.

In this connection it may be observed that under sub-Section 30 (6) of the Bankruptcy Act the value of a debt or liability which is incapable of being fairly estimated will be a debt not provable in the bankruptcy. In such circumstances (when there has been a disclaimer on behalf of an original lessee who has assigned) an original lessor might on the disclaimer proceedings obtain an order that the value of the liability of the original lessee on the covenants was incapable of being estimated. The result would be that in future in the event of there being a breach of the covenants of the lease by the assignee, and if the original lessor was unable to obtain redress against the assignee, he would be safeguarded by the order and might be enabled to recoup himself against the after-acquired property of the bankrupt for losses resulting from the breach of the covenants.

# *Letters to the Editor*

### Building Society Interest Paid

Sir,—With reference to your taxation note on the above subject at page 407 in the November, 1950, issue of your journal, we would welcome the contributor's comments on his authority for stating that excess building society interest is allowed to be carried forward at a loss. We have a case in our office in which we seek to carry forward excess building society interest, but the Inspector has replied that " there is no. provision for carry forward of building society interest unallowed in the year of payment, nor is it a practice to do so under extra-statutory arrangement."

Yours faithfully,
Eric Phillips & Co.,
*Incorporated Accountants.*

*London, S.W.3.*
*April 13, 1951.*

[Our Tax Correspondent writes: There is no statutory authority for the statement made in the Taxation Note to which this letter refers. As explained in the note, it was a matter of arguing from Section 19 of the Finance Act, 1928. If the building society interest is a payment made wholly and exclusively for the purpose of a trade, profession or vocation, then the amount equivalent to the Rule 21 assessment should be capable of being carried forward. The fact that the Inland Revenue have made an extra-statutory agreement with the building society should not deprive the taxpayer of the rights that would have been his if he had been able to deduct income tax. If the building society interest is not an expense in connection with capital expenditure, the Inspector should be asked to submit the question to his Head Office. Experience shows there should then be no difficulty in obtaining the concession.—Editor, Accountancy.]

### Conditions in Tax Offices

Sir,—With the biggest Budget in British fiscal history just introduced, the Treasury is busy driving all enthusiasm out of the very Department upon which the main burden of work will fall. Most of us are disturbed at the need for a special national protest meeting by the Association of H.M. Inspectors of Taxes. It is almost unbelievable that the Treasury should be throwing its weight to take a few miserable shillings a week out of the pay packet of the majority of the Tax Inspectorate staff.

As you remarked in your Editorial in the April issue of Accountancy (page 128), it is very disappointing that the committee of the Inland Revenue which recently reported on the organisation of the Department said nothing on " the most important problem of recruitment to this overburdened and undermanned Department," nor did it consider " the pressing question of salary grades and terms of employment in the Inland Revenue."

Our District Committees should open official relations with their local opposite numbers in the Association of H.M. Inspectors of Taxes, so that we can keep ourselves informed of what is going on.

The lowering of standards of recruitment which will inevitably follow if the Treasury maintain their present attitude will have serious reactions upon the tax work carried on in accountants' offices.

Yours faithfully,
J. W. Isacke, A.S.A.A.

*Birmingham, 2,*
*April 3, 1951.*

### C.P.A.s' Annual Meeting

Over 2,000 American Certified Public Accountants will gather in Atlantic City from October 7 to 11 for the sixty-fourth annual meeting of the American Institute of Accountants. The theme of the annual meeting will be the role of accounting in a defence economy. Several committees of the American Institute are already working closely with Government agencies on accounting matters.

# Taxation

## INCOME TAX CONSOLIDATION

As mentioned in the Professional Notes in our April issue (page 125) the draft Income Tax Consolidation Bill has been issued. If the Bill is to operate for 1952/53, as intended, allowing for the time required for preliminary administrative steps, it would have to be passed into law before the end of 1951. This means that it must start its Parliamentary passage in the autumn, and must be passed very quickly. Before its introduction into Parliament it will be revised to take account of the income tax provisions of this year's Finance Act.

### Consolidation, Not Codification

As the draft is intended only to *consolidate* the income tax provisions of the Income Tax Act, 1918, and some fifty subsequent Acts, it will not *codify* the income tax law. It does not incorporate the results of decided cases or attempt to give Statutory effect to practice where it differs from strict law. It does not purport to correct anomalies or remove ambiguity. Every effort has been made to leave the law exactly as it is, and (even at the cost of sometimes retaining unsatisfactory or misleading wording) to leave open to subject and Crown all the contentions on Statute law which are at present open to them. Thus, its aim is to collate the existing Statutory provisions; to make in them the amendments effected, whether expressly or by implication, by subsequent provisions; to improve their wording so far as it might be practicable without risking an alteration in the law; to omit inoperative matter and to arrange the result in a reasonably convenient and logical order.

As codification is undoubtedly a long way off, this consolidation is to be welcomed as a second-best, although it will mean that when thinking of specific provisions and Section numbers we must completely reorientate ourselves. It is a useful if not essential preliminary to codification.

### Suggestions Invited

Any suggestions for the correction or improvement of the draft must be sent to the Secretary of the Board of Inland Revenue before the end of next July, the envelopes to be marked "Income Tax Consolidation." Suggestions should not involve amendments of substance, or alterations of wording or arrangement that might change the law.

The draft gives marginal references to the Statute containing the original provisions now reproduced, and a Table of Comparison is annexed showing how the enactments proposed to be repealed are dealt with. The Bill runs to 529 Sections and no less than 26 Schedules, covering 495 pages, excluding the 37 pages devoted to the Table of Comparisons.

### Schedules and Schedules

It has always been slightly anomalous that the Schedules to the Income Tax Act, 1918, which number seven in all, have the peculiar feature that the first Schedule itself is sub-divided into Schedules A, B, C, D and E; it can confidently be asserted that very many people who are quite familiar with these Schedules have never realised that they are "Schedules within a Schedule." In the draft Bill there are 25 Schedules, but the old Schedules A to E are not among the 25. Yet they are retained in the body of the Bill, with the peculiar result that something called a Schedule is not a Schedule at all! The first Section, which is the charging section, says that where any Act enacts that income tax shall be charged for any year at any rates, then tax at those rates shall be charged in respect of all property, profits or gains respectively described or comprised in the Schedules contained in the Sections of the Act "enumerated below." We then find that Schedule A is dealt with in Section 82, Schedule B in Section 83, Schedule C in Section 117, Schedule D in Section 122, and Schedule E in Section 156. This is a complication which presumably cannot be avoided in a consolidation measure.

### Arrangement

The Bill has the great merit that it brings together in coherent fashion the subject matter of each particular topic. This is a much more logical arrangement than that of the Income Tax Act, 1918, as will be seen from a study of the arrangement of the different parts. Part I, headed "Preliminary," deals with the charge of income tax and the effect of charge at the standard rate and at higher rates, making it quite clear that a person who is charged in respect of any income out of which he pays annual payments, etc., is to be charged on that income at the standard rate only. Part II deals with administration, assessment, appeals, relief for mistake, and collection. This Part leads us directly to discover who are the Commissioners and Officers dealing with the administration—information which in the 1918 Act was not given until Part V. Part III deals with Schedules A and B. The effect of the consolidation is well illustrated by Section 83, which says that the Schedule referred to as Schedule B is as follows:

> (1) Tax under this Schedule shall be charged in respect of the occupation of all lands, tenements, hereditaments and heritages in the United Kingdom chargeable to tax on the Schedule A except (*a*) any dwelling house or the domestic offices thereunto belonging; and (*b*) any lands, tenements, hereditaments or heritages occupied for the purpose of carrying on a trade, profession or vocation.

This compact definition should be contrasted with the cross-references which it is at present necessary to make to find out what is comprised in Schedule B.

Part IV deals with Schedule C; Part V with Schedule D. A particularly welcome feature of Part V is that the provisions on the computation of profits are included in the body of the Act itself and not, as in the 1918 Act, relegated to various Rules. The right of election in respect of woodlands managed on a commercial basis is included in Schedule D, a much more logical place for it than Schedule B, where it is at present.

Schedule E is dealt with in Part VI of the Act, and provisions regarding expenses allowances, benefits in kind, etc., are included in the body of the Act, though there are still Rules of Schedule E relegated to an appendix (called a Schedule !).

### Annual Payments and Reliefs

Having as it were got the tax on its feet by describing the sources and bases of assessment, etc., the Bill goes on in Part VII to deal with the principal provisions regarding interest, rents, dividends, annual payments, etc. The Rules for deduction of tax at source from annual payments and from rent under short leases, etc., and the provisions for taxation of excess rents and mining rents, for deduction of management expenses by the owners of mineral rights, the deduction of tax from dividends and the various provisions regarding foreign dividends and certain Government loans are thus brought together. Small maintenance payments are also dealt with under this part of the Act. It is not until Part VIII that the graduation of tax by means of personal and other reliefs comes into the picture. This is logical. It is reasonable that the rules for charging income should be dealt with before providing for reliefs from that charge.

Part IX is devoted to sur-tax, and the provisions on undistributed income of controlled companies are, as is to be expected, found here. Part X contains the reliefs for certain capital expenditure, and therefore deals with the provisions of the Income Tax Act, 1945, as subsequently amended.

Relief for expenditure on scientific research is not dealt with in Part X but in Part XI. Reliefs for losses are collected in Part XII ; it may be helpful in the future that the present Section 34 becomes Section 341 ! There is a peculiarity here in that losses which can be relieved at present under Rule 13 of Cases I and II of Schedule D are not dealt with in this part of the Bill but in Section 142 of it, under the heading "Computation of Profit."

### Specialised Sections

From that point onward the Bill deals with more specialised Sections of tax, as follows :

Part XIII — Relief from double taxation.

Part XIV—Married persons. Under this we have the Rules regarding separate assessment and separate collection of tax.

Part XV—Special provisions as to trustees, agents, personal representatives, etc.

Part XVI—Non-residence and temporary residence.

Part XVII—Pensions and pension schemes, under which are included pensions generally and the retirement and other benefits of directors and employees.

Part XVIII—Settlements.

Part XIX—Estates of deceased persons in course of administration.

Part XX—Assurance companies, banks, investment concerns, etc.

Part XXI—Savings banks, industrial and provident societies, etc.

Part XXII—Charities, etc.

Part XXIII—Schemes for nationalising industry.

### Miscellaneous Provisions

In Part XXIV are miscellaneous special provisions which it has not been thought expedient to include under any of the previous Parts. These include copyright royalties, the spreading of patent royalties over several years, the herd basis for farm animals (for which there is also a " Schedule " to the Bill), certain provisions regarding war risks, injuries, etc., the taxation of expenditure and houses of ministers of religion, Lloyd's and other underwriters who set up special reserve funds (again with a Schedule), and various other matters.

Part XXV is general and supplemental ; it contains the special provisions applicable to Northern Ireland, and those for continuity consequential on income tax being an annual tax, including the adjustments necessary in respect of annual payments and dividends where there has been a payment before an increase or decrease in rate of tax. Interest on overdue tax, penalties and time limits, provisions for settling disputes between tenants, landlords and others, and various supplemental details, are all dealt with here.

Part XXVI provides for the commencement of the Act, saving, temporary and transitional provisions.

### Schedules to the Bill

Apart from certain Ministerial points such as appointment of General and additional Commissioners, the Schedules include provisions dealing with the procedure in connection with the determination of annual values of property for the purpose of assessment for the year of revaluation, recovery of tax under Schedule A assessed on the landlord and rules applicable to Schedule E. It will be seen that even now there are many points not included in the body of the Act. No doubt it was found difficult to include certain of these Rules in the main text without making it too cumbersome. Nevertheless we should have welcomed it if the attempt had been made. The same remarks apply to other provisions in the Schedules dealing with temporary provisions as to mills factory allowances, relief from income tax and profits tax by way of credit in respect of foreign tax, unilateral double taxation relief, rules applicable to the herd basis of farm animals, and the special reserve funds in relation to Lloyd's and other underwriters.

### Table of Comparisons

The Table of Comparisons is illuminating in that it shows the number of Sections in the original Acts which have been repealed, superseded, spent, rendered unnecessary or inoperative by subsequent changes in the law. It is also interesting because of the numbers of provisions from other Acts which it has brought in, e.g., Sections of the Tithe Act, 1937, the National Loans Act, 1939, Bank of England Act, 1946, the National Insurance Act, 1946, Town and Country Planning Act, 1947, Superannuation Act, 1949, etc., parts of which are consequentially to be repealed by the Bill.

If the time-table mentioned at the beginning of this article is adhered to, we shall not have long for adjusting ourselves to the new Section numbers and to find our way about the Act. Some time will have to be spent, while dictating letters, in turning up the Table of Comparisons to find the new Section numbers.

# The Tucker Committee Reports

DURING APRIL THE REPORT WAS ISSUED of the committee appointed under the chairmanship of Mr. J. Millard Tucker, K.C., in June, 1949 (Command 8189, His Majesty's Stationery Office, price 3s. 6d. net). The committee's task was :

to inquire into the method of computing net trade profits for the purpose of charging them to income tax and to consider the question of the basis period to be taken in assessing the tax on the profits so ascertained ; to inquire into the method of computing net profits for the purpose of charging them to Profits Tax ; and to report upon any alterations of the tax law which may be desirable.

The committee has done its work expeditiously.

We give on pages 185-6 the summary of the committee's recommendations.

In our next issue we hope to publish notes on the report prepared by the Taxation Sub-Committee of the Incorporated Accountants' Research Committee. Meanwhile some observations of our own follow.

### The Basis Year

Many people will be disappointed with the committee's rejection of a current-year basis for assessment of business profits : that basis was favoured by the majority of witnesses. It seems almost as if the committee was hampered by its terms of reference and felt itself obliged to reject anything that would not fit squarely and exactly into into the present income tax system, particularly the fiscal year and the annual Budget. The arguments advanced against the change are nevertheless technically absorbing, and readers of the report will study with interest examples worked out by the Inland Revenue of the sort of calculations that would arise under a system of provisional assessments. Most accountants would prefer an easier system ! The committee, with the assistance of the Board of Inland Revenue, " laboured long in an attempt to find a solution," but was driven to the conclusion that a current-year basis is impracticable in this country. Have not all attempts made so far to do anything with the taxation system merely grafted new branches on the old tree ? Will the Royal Commission get anywhere on the way to planting new trees, starting afresh on another method of cultivation ?

### Partnerships

Having rejected a current-year basis of assessment the committee, bearing in mind that the majority of partnerships are in business in a small way, and that most changes in firms involve the introduction of a member of the family or an employee, decided it would be unpopular to suggest the application of the cessation provisions in all cases. It recommends the preservation of the present basis of allocation of assessments, but the reversal of the present procedure on a change in the constitution, i.e., that the cessation provisions should apply unless all the old and new partners elect to continue the preceding-year basis. In all cases, losses and capital allowances available should be carried forward. On double changes (*cf.* the decision in *Osler* v. *Hall*, 1932, 17 T.C. 68) any additional liability arising on any partner should be enforceable even if the cessation provisions did not fall to be applied on one of the changes. This would prevent the avoidance of tax which is at present possible. The recommendations would also prevent any partner, without his agreement, having allocated to him for tax purposes profits far greater than those to which he is entitled in fact.

### Losses

There will no doubt be general agreement with the recommendations regarding losses, as set out in the summary below.

### Sur-tax

The proposal to allow incomes to be averaged over five years is promising, and the examples will repay study. Authors are cited by the committee as an example of recipients of fluctuating incomes, but the committee points out that abnormal years' income arise in every business, and even in some employments. Averaging prevents exceptionally heavy sur-tax in one year, though making the charge heavy in years of smaller income following a year of abnormally large income. The comparable problem in professions where the working life is short, e.g., authors, boxers, film stars, is stated as being one which should be considered by the Committee on Retirement Provisions (also under the chairmanship of Mr. Millard Tucker).

### Inflation

The replacement of fixed assets and of stock is complicated by changes in the value of money. Should industry pay tax on profits required to maintain productive capacity (measured in real terms and not in terms of money) ? Much has been said and written in recent years on this topic. But it is, we think, fair to say that most accountants agree that there are really two distinct problems : the ascertainment of profits on the one hand, and the setting aside out of those profits of amounts required to finance replacements. They would like to see some relief for the second leg of the problem.

The committee points out one objection that must have weight, viz., that any relief involves giving preferential treatment to owners of businesses as against other taxpayers whose capital has depreciated in real value. A feature of most schemes advanced is that they benefit an established and stationary business, but not a new one or the expansion of an existing one ; they also give relief to a business which has replaced its plant since the war but not to the business which has not. Yet all reliefs must start somewhere ! The difficulty of determining what is a replacement is not a valid argument against relief. With goodwill on both sides that difficulty can be solved.

The committee, having decided that none of the suggestions made to it was both equitable as between different classes of business, and practicable in administration, examined the possibility of an increase or acceleration (or both) of existing types of allowances. It recommends that differential rates of initial allowances should apply having regard to the price level of the plant and machinery in question and the importance of the particular industry to the national economy. (New assets would not be distinguished from replacements.)

The committee argues that the *financial* problem of finding the funds for replacement can be solved in this way : it does not try to justify its con-

clusion on the grounds that it is economically right in the long run. Experience of the Capital Issues Committee does not lead us to welcome the setting up of a similar body (as the committee suggests) to advise on applications for increased initial allowances. However, the whole issue became academic a few days after the publication of the committee's report, when the Chancellor's Budget proposed the complete suspension of all initial allowances on expenditure after April 5, 1952.

Relief for the increased costs of maintaining stock is rejected. There would be formidable practical difficulties in administration, and the committee thinks relief cannot be justified in principle. Even more than with plant, relief for stocks would favour existing and stationary businesses.

The suggestion of relief for undistributed profits is more a matter for the Royal Commission, but the committee point out some obvious objections, e.g., the relief bears no relation to the extent of the evil it is put forward to cure ; the test of whether profits are or are not distributed is impracticable in the case of an individual, partnership or one-man company, and would be of greatest advantage to the business inadequately financed.

## Recommendations

It is not proposed in the present note to discuss the positive recommendations in detail. The summary is indicative only of their nature. In addition to those recommendations already mentioned emphasis should be placed upon the importance of proposals for the extension of the industrial buildings allowance to commercial buildings and of the allowances for depletion of mineral sources in the United Kingdom as well as abroad.

The committee rejects the deduction of capital allowances in computing profits, as they might thus be allowed more than once (e.g., in a new business) or not at all (e.g. in the closing years). No alteration in the existing legal position of valuation of stock is necessary.

The proposals regarding groups of companies are most interesting and would go a long way to easing the position without too many complications.

On Profits Tax the suggested increase in the allowable directors' remuneration in the case of director-controlled companies has, in fact, been included —though on rather less generous lines— in the Budget proposals. The committee rejects the suggestion that preference dividends should either be allowed as deductions or not be treated as distributions; the first because they cannot agree that it would be a proper deduction—being an appropriation of profit—the second not from lack of sympathy but because the problem is outside their terms of reference.

## *SUMMARY OF RECOMMENDATIONS*

**The following is a brief summary of (A) positive recommendations made by the committee, and (B) "views on questions which cannot be considered in isolation."**

### A. RECOMMENDATIONS

#### BASIS OF ASSESSMENT

***Partnerships***

**(*a*) The present basis of allocation (namely, by reference to the partners' allocation in the year of assessment) to be preserved.**

**(*b*) On a change in the constitution of a partnership the cessation and commencement provisions to be applied unless all those who were members of the partnership both before and after the change elect that the assessments should continue to be made on the normal preceding year basis. (Where the change arises by reason of the death of a partner, the surviving partners should be entitled to exercise the option without being required to secure the agreement of the deceased's personal representatives.)**

**(*c*) Whether or not the cessation provisions apply on a change in partnership, the continuing partners should be entitled to carry forward their share of any loss or capital allowances for which relief has not already been given.**

**(*d*) Where there is a change in the basis of allocation of profits among the partners the cessation provisions should apply if, and only if, there is a formal dissolution in writing of the partnership followed by the creation of a new partnership, and notice in writing is given to the Inland Revenue within a specified period.**

**(*e*) Any additional liability arising from the application of the cessation provisions, either on the coming to an end of the business, or under sub-paragraphs (*b*) or (*d*) above, should be enforceable on the persons who were members of the partnership during the relevant years, notwithstanding that in these years there may have been another change in partnership in relation to which the cessation provisions were not applicable.**

***Losses***

**(*a*) Business losses should be carried forward without time limit.**

**(*b*) The owner of a business should be entitled to claim that a loss incurred in the last year of the business should be carried back and set against assessments on the business for the three preceding years.**

**(*c*) A business loss should be able to be carried forward and set against non-business profits for the following income-tax year.**

**(*d*) There should be a right of appeal to the courts on points of law arising in connection with claims under Section 34 of the Income Tax Act, 1918.**

**(*e*) The administrative concession under which wear and tear and other capital allowances are allowed to augment or create a business loss for purposes of relief under Section 34 of the Income Tax Act, 1918, should be legalised.**

***Spreading for Sur-tax***

**Sur-tax on fluctuating incomes should be spread at the taxpayer's option by averaging the rate over a five-year period.**

#### INFLATION

**A minimum rate of initial allowance should be prescribed ; any association which represents a particular industry should be entitled to apply for a higher rate by reference to the price level of the plant or machinery in question and the importance of the industry to the national economy.**

#### BASIS OF COMPUTATION (GENERAL)

**(*a*) Recoveries, etc., of sums previously debited should be treated as business receipts.**

**(*b*) Rule 3 (*a*) of Cases I and II should be qualified so as to nullify the test propounded by Lord Davey in *Strong & Co. of Romsey, Ltd.* v. *Woodifield.***

**(*c*) Rule 3 (*c*) of Cases I and II should expressly allow a deduction for part of the rates and other expenses of a house used partly for business purposes.**

**(*d*) Rule 3 (*d*) should be amended so as to refer to liability incurred.**

**(*e*) The cost of tax appeals should be deductible.**

**(*f*) Revenue expenditure incurred before business begins should be allowed in the first accounting period.**

**(*g*) Legal costs, etc., on the acquisition of a lease should be allowed over the period of the lease.**

**(*h*) A profit or loss on the sale of overseas securities compulsorily acquired should be treated as a receipt or expense of the business.**

(*i*) Premiums on insurance policies against air risks should be allowed.

(*j*) On a sale of land bearing fruit, the profits of the vendor and purchaser should be computed by taking into account the value of the crop at the date of sale.

(*k*) An expense or loss incurred in providing benefits for employees should be deductible.

(*l*) Where the activities of a business include the letting of property, rents received should be treated as a business receipt, deductions being given for the amount on which tax has been suffered and for any rent paid, other than rent from which tax is deducted.

DEPRECIATION AND WASTING ASSETS

*Non-industrial Buildings*

Depreciation allowances should be given for commercial buildings.

*Leasehold property*

A writing-off allowance should be given for premiums, etc., on leases where both the property and the lessor or transferor are abroad.

*Mines, Oilwells, etc.*

(*a*) Depreciation allowances should be given for land which has to be surrendered on the expiry of a mining concession.

(*b*) Abortive exploration expenditure should be allowed if incurred in searching for a mineral which the company is already working.

(*c*) Contributions to public services in undeveloped countries should qualify for depreciation allowances.

(*d*) Allowance should be made for depreciation in value of the sites of works near mines abroad.

(*e*) On the exhaustion of a mine, or the coming to an end of a concession, an allowance should be given for any depreciation in value of a sports ground made for employees at the mine.

(*f*) Depreciation allowances should be given for exploration plant where the remaining exploration expenditure qualifies for allowance.

(*g*) Allowances for depreciation of offices and workers' dwellings at mines should be given on the output formula (Part III of the Income Tax Act, 1945).

*Other assets and capital expenditure*

(*a*) Payments for the hire or use of another person's asset should be written off where (i) the recipient is liable to tax on the payments or (ii) both the asset and the recipient are abroad.

(*b*) Payments made to acquire an asset of limited life should be written off by means of allowances of such amount as the Commissioners think just and reasonable, in cases where the matter is not complicated by any consideration of the tax position of the recipient of the sum.

(*c*) Payments which do not produce a capital asset, but which result in an advantage of limited duration, should be written off by means of allowances of such amount as the Commissioners think just and reasonable.

(*d*) It should be made clear that Rule 3(*a*) applies to the maintenance and development of a business.

(*e*) Abortive expenditure should be deducted as an expense of the year for which it is incurred.

*Miscellaneous*

(*a*) Depreciation allowances should be given for land used by cemeteries and crematoria.

(*b*) The Mersey Tunnel should get industrial buildings allowances.

(*c*) Expenditure on cutting and tunnelling should be allowed if and when it can be shown that it has ceased to be of value.

(*d*) The cost of acquiring non-mineral concessions abroad should be written off over the period of the concession.

(*e*) Industrial buildings allowances should be extended to pastoral companies abroad.

(*f*) Depreciation allowances should be given for development charge only if it is for a limited period.

(*g*) A higher rate of depreciation allowance should be given on overseas buildings of a comparatively unsubstantial character.

(*h*) Balancing charges and allowances should be made where property is expropriated or stolen.

(*i*) Allowances for overtime working of plant and machinery should depend on the facts in the basis period.

(*j*) Expenditure on dredging should qualify for balancing allowances if and when it can be shown that the expenditure has become valueless.

(*k*) If the costs of demolishing an asset exceed the scrap proceeds the excess should be taken into account in computing a balancing allowance or charge.

(*l*) Expenditure on dilapidations, or payments in lieu thereof, if not deductible should be taken into account in computing a balancing allowance to the lessee.

GROUPS OF COMPANIES

(*a*) If a company agrees to reimburse a loss incurred by another company in the same group, any payment made under the agreement should be taken into account in computing the liability both of the payer and the recipient.

(*b*) A company which is a member of a group should be entitled to value goods purchased from another member at the cost to that other member.

MISCELLANEOUS (INCOME TAX)

(*a*) Property-owning companies in which the public are substantially interested should be assessed under Case I of Schedule D, the existing Schedule A assessments being retained.

(*b*) Companies within Section 33 of the Income Tax Act, 1918, should be able to carry forward unrelieved management expenses in the same way as a trading company can carry forward a loss.

(*c*) If relief from double taxation is inadequate because capital allowances are given on different bases in this country and abroad, the taxpayer should be entitled to claim to postpone the whole or part of the allowances until a later year.

(*d*) Legal sanction should be given to the administrative concession under which patent royalties which are paid without deduction of tax because of a double tax agreement are allowed to be carried forward as though they were a loss to the extent that they exceed the profits.

(*e*) A life assurance company should in certain circumstances be given a measure of relief on the investment income of that part of its annuity fund which relates to business done with superannuation funds approved under Section 32 of the Finance Act, 1921.

PROFITS TAX

(*a*) In the case of a director-controlled company, the allowance for directors' remuneration should be increased in proportion to the number of full-time working directors.

(*b*) Legal sanction should be given to the administrative concession under which patent royalties are allowed as an expense in computing profits where they are paid to a person abroad and income tax is not deducted by reasons of a double taxation convention.

(*c*) Where a company receives foreign income which is relieved from United Kingdom income tax under Section 31 of the Finance Act, 1946, that income should be grossed up in computing the company's franked investment income.

B. VIEWS ON MATTERS WHICH CANNOT BE CONSIDERED IN ISOLATION

BASIS OF COMPUTATION (GENERAL)

A writing-off allowance should be given to a lessee for a payment made to a lessor for cancelling a lease of business premises.

DEPRECIATION AND WASTING ASSETS

(*a*) A writing-off allowance should be given on premiums paid for a lease of business premises and on the purchase price of a lease of such premises.

(*b*) A depletion allowance should be given for United Kingdom minerals.

(*c*) The depletion allowance for overseas minerals should be computed on the cost to the owner of the business.

(*d*) Payments for the hire or use of another person's asset should be written off.

# Taxation Notes

## Maintenance Claims

It is sometimes asked: "Who is entitled to the maintenance relief under Schedule A?" The 1918 Act (Rule 8 of No. V, Schedule A) says that if the "owner" of any land or houses shows that the average cost to him of maintenance, etc., exceeds the repairs allowance, he is entitled to repayment of tax on the excess. Section 15 (3), Finance Act, 1940, provides that any relief due to an immediate lessor is to be calculated as if the annual value included excess rent.

The term "owner" is not defined, and therefore must include a "beneficial owner." It is understood that the practice is to admit a claim by a beneficial owner, e.g., a tenant occupying a property at a rent less than the net annual value (N.A.V.) or rent-free, or a lessee sub-letting at an increased rental a property of which the N.A.V. exceeds the rent paid by him. (Compare a statement made by the Solicitor-General, *Hansard*, July 15, 1946, cols. 922-23).

The repairs allowance may have to be apportioned in such cases, as it usually is where a tenant carries out part repairs and the owner makes a maintenance claim on his expenditure.

## Amenity Land

By Section 31, Finance Act, 1948, all farming in the United Kingdom is to be treated as the carrying on of a trade (or part of a trade), and the occupation of land for any purpose other than farming shall, if the land is managed on a commercial basis and with a view to the realisation of profits, be treated as the carrying on of a trade (or part of a trade). No land occupied for the purpose of carrying on a trade, profession or vocation is to be charged under Schedule B (except woodlands for which no claim has been made under Rule 7 of Schedule B).

It therefore seems that if lands are cultivated at all and produce sold, there is a "commercial basis." If profits (and, it must be argued, if losses) are derived from the sale of goods, or from work and labour, or from any service for reward, it is not the land itself that is the source of the profits (or losses) but the work, etc. Many taxpayers with large gardens are taking advantage of this provision.

Amenity land is now, it seems, confined to the lawns and shrubberies and small gardens maintained wholly for producing vegetables, etc., for domestic consumption. The distinction between farming and market gardening also seems unnecessary.

## Settled Property

An important exemption from estate duty is not so well known as it ought to be, namely, that where estate duty has been paid in respect of any settled property since the date of the settlement, in connection with the death of one of the parties to a marriage, it is not payable in connection with the death during the continuance of the settlement of the other spouse, unless the latter was at the time of his death or at any time during the continuance of the settlement competent to dispose of the property.

A man or a woman making a will should seriously consider the effect. If he or she leaves property to the surviving spouse for life, estate duty will be payable on the first death but not on the second. A general power of appointment would prevent the relief from operating, but a limited power (to a class excluding the surviving spouse) or a power to trustees to apply capital in case of need does not prejudice the relief. This latter point is important.

Another method of achieving relief is to make an *inter vivos* settlement on a spouse. So long as the settlor lives for five years a settlement on his wife for life with remainder to himself will have the following effect:

If the settlor dies first there is a reversionary interest (on which the executors can pay estate duty at once or wait till it falls in). (Duty would be payable at once on the gift if he died within five years, of course.) On the subsequent death of the wife the payment of estate duty on the reversion is regarded as giving exemption on the wife's death.

If the wife dies first there is no duty payable on the property, as it reverts to the settlor (Section 15, Finance Act, 1896). (Care must be taken to see that there are no other interests created by the settlement, and the settlement must not dispose of the reversion.)

It will be seen that with such a settlement, unless the settlor dies within five years, payment of estate duty is deferred until the death of both the settlor and his wife.

## Nomination Policies

Much publicity has recently been given to these policies in favour of a wife or children as a means of reducing the estate duty payable on the death of the insured. By Section 4 (proviso), Finance Act, 1894, such a nomination policy is not aggregable but forms an estate by itself. It is important to note that each such policy is an estate by itself, but the proviso is inoperative if the insured acquires an interest under the wife's will or intestacy or if the deceased has a contingent beneficial interest in the event of the objects of the nomination failing.

The question has been asked whether the premiums paid by the deceased within five years of his death on such a policy are liable to estate duty as gifts within the statutory period. As that would give rise to double taxation it seems obvious that the answer is "no!" The authority, however, for saying "no!" is that the charge on gifts within five years operates only where the disposition by the deceased purported to operate as an immediate gift *inter vivos*. A nomination policy does not purport to be an immediate gift; it passes automatically on the death. The fact that it is not aggregable is a separate point.

## Double Taxation Relief

An Order in Council in respect of the Double Taxation Arrangements (which apply to Cyprus as they apply to the United Kingdom) with Greece relating to air transport profits was made on April 9 and has now been published as Statutory Instrument 1951, No. 618.

## Deduction of Income Tax from Dividends, Interest, etc.—Year 1951-52

The following memorandum has been issued by the Board of Inland Revenue:

1. Under a Resolution of the House of Commons passed in Committee of Ways and Means on April 10, 1951, and having statutory effect under the Provisional Collection of Taxes Act,

1913, the standard rate of income tax imposed for the year commencing April 6, 1951, is 9s. 6d. in the pound.

2. Accordingly income tax is deductible by reference to the rate of 9s. 6d. in the pound in respect of payments of dividends, interest, annuities, ground rents, rents payable under leases granted for a term exceeding fifty years, mineral rents and royalties, copyright royalties to persons not resident in the United Kingdom, patent royalties, etc., made on or after April 6, 1951,* with the exception of—

(*a*) payments, made out of taxed sources, which became due before April 6, 1951, from which income tax is deductible by reference to the rate in force at the time when the amount payable became due ; and

(*b*) payments, made out of taxed sources, of rents under leases granted for a term exceeding fifty years, feu duties, bond interest, etc., due for the period ending on May 15, 1951, in respect of lands and heritages in Scotland chargeable to tax under Schedule A, from which income tax is deductible at the rate in force at the commencement of that period.

3. As regards payments (other than those mentioned in (*a*) and (*b*) in the preceding paragraph) made on or after April 6, 1951, from which tax has been deducted by reference to a rate less than 9s. 6d. in the pound, the position is as follows :

*Class I*

(*a*) Dividends and interest from the Public Funds payable on or after April 6, 1951.

(*b*) Dividends and interest from any Public Revenue other than that of the United Kingdom or from any body of persons not resident in the United Kingdom, entrusted to an agent in the United Kingdom for payment in the United Kingdom on or after April 6, 1951, and also the like dividends or interest, which, although not entrusted to such an agent for payment, have been realised on or after that date through bankers, coupon dealers or other persons in the United Kingdom.

Bankers, agents or other persons who have made payments falling within this class since April 5, 1951,* and have deducted tax by reference to a rate less than 9s. 6d. in the pound will be required to furnish to the Commissioners of Inland Revenue lists containing the names and addresses of the persons to whom the payments have been made and the amounts of such payments.

* As regards payments of rent made by a tenant-occupier to his landlord, a note with respect to the deduction of tax from such payments will be found on the demand notes issued by Collectors of Taxes.

*Class II*

(*a*) Preference dividends (as defined by Section 12 (4) of the Finance Act, 1930),† paid out of the profits or gains of companies in the United Kingdom.

(*b*) Interest, annuities and patent royalties, other than payments falling within class I above.

(*c*) Copyright royalties paid to non-residents.

(*d*) Rents, mineral rents and royalties, etc., payable in respect of property in the United Kingdom which forms part of such concerns as mines, gasworks, waterworks, railways, etc., and is not charged to income tax under Schedule A, and payments for wayleaves, etc., for electric lines.

(*e*) Rents payable under leases granted for a term exceeding fifty years of property chargeable to income tax under Schedule A and certain other annual payments charged on such property (e.g., rent charges, fee farm rents and feu duties) falling due after April 5, 1951 (or in Scotland after May 15, 1951).

Where, before the passing of the Finance Act for the year, tax has been deducted from payments falling within this class by reference to a rate less than 9s. 6d. in the pound, the payer is authorised under Section 211 (2) of the Income Tax Act, 1918, to adjust the under-deduction by making a corresponding extra deduction from the next subsequent like payment made after the passing of the Finance Act. If there is no such further payment from which an adjusting deduction can be made, the payer is entitled to recover the amount under-deducted directly from the recipient of the payment from which the insufficient deduction was made.

* April 9 in the case of a " body of persons not resident in the United Kingdom " which has not in the past been treated as a " foreign or colonial company, society, adventure or concern " for the purposes of Rule 7 of the Miscellaneous Rules applicable to Schedule D. The former expression is substituted for the latter in Rule 7 under a Resolution of the House of Commons passed on April 10, 1951.

† The expression " preference dividend " is defined as meaning (*a*) a dividend payable on a preferred share or preferred stock at a fixed gross rate per cent. ; or (*b*) where a dividend is payable on a preferred share or preferred stock partly at a fixed gross rate per cent. and partly at a variable rate, such part of that dividend as is payable at a fixed gross rate per cent.

*Dividends, other than preference dividends, paid out of the profits or gains of companies in the United Kingdom*

As regards dividends other than preference dividends the position is that the Income Tax Acts do not authorise any subsequent adjustment in respect of under-deductions of tax, but, by virtue of Subsection (3) of Section 12 of the Finance Act, 1930, where tax has been deducted by reference to a rate less than 9s. 6d. in the pound, the net amount of any such dividend will be taken for all income tax purposes to represent income of such an amount as, after deduction of tax by reference to the rate of 9s. 6d., would be equal to the net amount paid.

*Dividends affected by double taxation relief (Section 52 of the Finance (No. 2) Act, 1945)*

In the case of both preference and ordinary dividends, where a " net United Kingdom rate " has been computed for a dividend from which tax has been deducted at the rate of 9s. in the pound instead of the correct standard rate of 9s. 6d. in the pound, dividend counterfoils for the next following dividend should contain a reference to the earlier understatement of the net United Kingdom rate. The net United Kingdom rate on the next following dividend referred to should be determined in the normal way, viz., the difference between the standard rate for the year and the rate of double taxation relief.

If further information is desired in particular cases, application should be made to the Secretary, Inland Revenue.

*As there were no new tax decisions before we went to press, our new feature, " Tax Cases—Advance Notes," does not appear this month.*

*An article on the Budget, with figures of the Budget estimates, appears on pages 169-172, and a Professional Note " Budget Windfall for Shareholders " on page 166. A note on " Estate Duty—Valuation of Depreciating Shares " is on page 191.*

# Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

*Income tax—Office or employment of profit—Director of company appointed managing director—British company controlled in United Kingdom operating abroad—Functions of managing director performed abroad—Whether office held in United Kingdom—Schedule E, Rules 1, 6—Finance Act, 1922, Section 18.*

**Goodwin v. Brewster** (C.A., February 9, 1951, T.R. 1) was the subject of an extended note in our issue of February last (pages 58-9). A unanimous Court of Appeal has affirmed the decision of Danckwertz, J., the only full judgment being given by Jenkins, L.J. Appellant was a director of Trinidad Consolidated Oilfields, Ltd., who had been appointed by its directors managing director of the company at £3,000 per annum. In December, 1939, he went to Trinidad and had remained there, save for a visit to the United Kingdom in 1941, and was paid there. It was admitted that he was non-resident during the relevant years. During his absence an alternate director received the fees of his directorship. The Special Commissioners had held that appellant had only one office, that of managing director, and that it was a public office within the United Kingdom assessable under Schedule E under *McMillan* v. *Guest* (1940, A.C. 561, 24 T.C. 190). Danckwertz, J., had found that there were two offices but that the said decision applied to both and in the Court of Appeal this view was upheld, the argument for the appellant that the managing directorship was an employment and not a public office within Rule 6 of Schedule E being rejected.

In his brief endorsement of his brother's judgment, the Master of the Rolls remarked:

> Now, I have no doubt that matters might have been so contrived that Mr. Goodwin did hold the office of director in England and also was appointed to serve the company as manager or technical supervisor in Trinidad; and had that been done I think there might have been great force in the contention that the remuneration, payable as it was in Trinidad out of Trinidad resources, would not be liable . . . under Schedule E in England.

These remarks demand careful consideration: but it must be noted that they are entirely *obiter*.

*Income tax—Mortgage bonds of an American company—Interest in arrear—Arrangement between company and bondholders—Cancellation of bonds and issue of promissory notes in lieu—Sums equal to interest in arrear on bonds paid after cancellation of bonds—Whether income from foreign securities—Whether income from foreign possessions—Income Tax Act, 1918, Schedule D, Cases IV and V.*

**Lilley v. Harrison** (C.A., February 16, 1951, T.R. 11), was noted in our issue of February last (pages 59-60). Appellant, Mrs. Lilley, had owned a series of second mortgage bonds of the O-Cedar Corporation, an American company. These bonds carried interest at 6 per cent. and were secured upon property in Chicago. In 1942 interest was in arrear but the company desired to sell the said property and an arrangement was come to whereby the bonds were to be cancelled in consideration of Mrs. Lilley being issued a five-year promissory note for $100,000, the sum secured by her bonds, with other securities and a guarantee, and a proposal to pay the "balance of interest on second mortgage bonds half June first 1943, and half June first 1944." This, in substance, was what was done. The bonds were cancelled; Mrs. Lilley received her promissory note; and on June 1, 1943, and June 1, 1944, Mrs. Lilley received on each occasion the sterling equivalent of $18,000.

The Special Commissioners had held that the 1942 arrangement was a binding contract constituting a foreign possession within Case V and the sums received by Mrs. Lilley in 1943 and 1944 were taxable under that Case. Danckwertz, J., had reversed their decision, holding that the bonds were throughout the source and that as appellant did not hold them during the years of assessment she could not be taxed on the interest therefrom. A unanimous Court of Appeal reversed this decision. The Master of the Rolls held that the sum of $36,000 retained its character of interest arising out of or under the mortgage bonds although "certain of the incidents affecting that interest were altered" and that the source was the original contract to pay interest contained in the mortgage bonds which remained operative after cancellation. There having been a difference of judicial opinion, leave was given to appeal to the Lords.

The alternative argument put forward upon behalf of Mrs. Lilley was that if the 1942 bargain was the source of the $18,000, then it could not "by any ordinary usage of language" be income at all because it did not arise from either securities or possessions.

*Sur-tax—Undistributed income of company—Apportionment—Wife as shareholder—Assessment on husband in respect of wife's interest although husband not a shareholder—Whether assessment competent—Income Tax Act, 1918, General Rule 16—Finance Act, 1922, Section 21, Schedule 1, para. 8; Finance Act, 1927, Section 42 (7)—Finance Act, 1936, Section 19 (5)—Finance Act, 1938, Section 38 (1)—Finance Act, 1939, Section 15 (6) (b).*

**Latilla v. C.I.R.** (House of Lords, December 14, 1950, T.R. 367), arose out of a tax avoidance scheme whereby a peculiarly constituted company called F.P.H. Finance Trust had been created which carried on the business of financing and dealing in shares of gold-mining companies. As the case under review was the third arising out of it to reach the House of Lords, the scheme has probably proved more expensive than any other, not only in legal costs but in other respects. The point before their Lordships arose out of the statutory provisions regarding the undistributed profits of private companies. At December 31, 1936, there was £858,817 standing to the company's profit and loss account which was available for distribution in dividends. Of that sum £645,192 represented profit for the period from April 1, 1935, to December 31, 1936. The only dividend paid in respect of the period was one of £146 11s. 6d. (Incidentally, it would appear from *F.P.H. Finance Trust, Ltd. (In Liquidation), No. 1* (1942-3, 26 T.C. 131), that in the following 15 months losses of about £400,000 were sustained by the company.) Apart from a holding of £100 by a public company the whole of the company's capital was held by appellant's wife and her two married daughters. Appellant, himself, was in control of the public company.

The Special Commissioners had apportioned the whole of the £858,817 to the shareholders under Section 21 (1) of Finance Act, 1922, and £285,996 had been apportioned to appellant's wife, similar apportionments being made to the two other married women. Assessments, however, had been made upon their husbands who were not members of the company and these were appealed against upon that ground. The Special Commissioners had confirmed the assessments; Atkinson, J., had affirmed their decision, but a unanimous Court of Appeal had reversed it. An equally unanimous House of Lords reversed the decision of the Court of Appeal and restored the decisions of Atkinson, J., and the Special Commissioners. The substance of the decision was that by Section 21 (2), Finance Act, 1922, all the provisions of the Income Tax Acts are to apply *with any necessary modifications* and that by reason of General Rule 16 any assessment under the Section had to be made on the husband of a member of the company if she was living with him.

# The Student's Tax Columns

## PROFITS TAX—I

PROFITS TAX IS PAYABLE ONLY BY A BODY CORPORATE OR by an unincorporated society or other body not being a partnership of individuals. (Personal representatives of a deceased person are not included in the term "unincorporated society," etc.). It is payable in respect of all trades and businesses carried on by such a body in the United Kingdom or carried on anywhere else if the body is ordinarily resident in the United Kingdom. In what follows we shall speak only of companies, but the term must be regarded as including other liable bodies.

Individuals* and partnerships of individuals are exempt. If a company is a partner, however, its share of the partnership profits is added to any other profits the company makes. All trades carried on by the same company are treated as one business, and the profits aggregated.

Investment and property holding companies are liable just as much as any other company.

### DEFINITIONS

"*A company in which the directors have a controlling interest*" (hereafter called a "*director-controlled company*") is not defined, but means a company in which the directors can impose their will on all the other shareholders at a general meeting, e.g., by voting power. And it is the actual voting power at the meeting that counts, even if the directors in question do not themselves own the shares registered in their names. Only the names on the register can be considered (except perhaps in the case of pure nominees).

"*Director*" has the same meaning as in the Companies Act, but also includes a manager who is paid by the business for his services and owns not less than 20 per cent. of the ordinary share capital.

"*Ordinary share capital*" means all the issued share capital except that carrying a fixed rate of dividend only (a fixed rate "free of tax" is also excepted).

A "*whole-time service director*" is a director who is required to devote substantially the whole of his time to the service of the company in a managerial or technical capacity, and who is not the beneficial owner of more than 5 per cent. of the ordinary share capital. (This is a very important definition as a whole-time service director is treated for most purposes as if he were an employee. He is, however, regarded as a director in determining whether or not the company is director-controlled.)

"*Franked investment income*" (which is exempted from profits tax) is any income received directly or indirectly by way of dividend or distribution of profits from a company which is itself in the scope of profits tax.

### EXEMPT COMPANIES, ETC.

Exemption is accorded to :

(*a*) Certain statutory undertakings†, but the exemption does not extend to some nationalised bodies ;

(*b*) Certain undertakings in the special areas (it seems that this may have ceased on June 15, 1950) ;

(*c*) The British Broadcasting Corporation ;

(*d*) The income of friendly societies, trades unions and charities so far as it is exempted from income tax ;

(*e*) The income of a controlled company where a surtax direction is made under Section 21, Finance Act, 1922 ;

(*f*) Profits from shipping and transport, etc., where reciprocal arrangements are in being ;

(*g*) Personal representatives (though a company acting as such will be liable on the profits it makes from its own business).

### COMPUTATIONS

Profits are to be computed according to income tax principles except where special rules are laid down. The most important differences are these :

(1) The basis of assessment is the actual (adjusted) profit of the "chargeable accounting period" (C.A.P.). Profits are computed for the ordinary accounting period, and the result "split" in proportion to the months and fractions of months, where the C.A.P. differs. The C.A.P. normally differs from the accounting period only where there is a change in law, e.g., on the increase in the rates as from October 1, 1949, and again as from January 1, 1951, or where the accounting period is for more than a year ; the C.A.P. cannot exceed a year. The appropriate income tax law is that in force when the C.A.P. ends.

(2) Annual payments laid out wholly and exclusively for the purposes of the trade are allowed as deductions in computing profits unless paid to directors (other than whole-time service directors) of a director-controlled company. (Annual payments are disallowed for income tax because the tax is deductible on payment.)

(3) Capital allowances are debited as an expense in computing the profits. Balancing charges are added to the profits. For these purposes it is necessary to "marry" the income tax allowances and charges to the accounting period. For example, the year ended November 30, 1950, fell as to the four months from December, 1949, to April 5, 1950, in 1949/50 ; the remaining eight months in 1950/51. It is therefore necessary to take four-twelfths of the 1949/50 capital allowances and eight-twelfths of the 1950/51 capital allowances as the debit against the profits of the accounting period. Similar proportions of balancing charges would have to be credited to the profits.

* There is only one exception ; underwriters who adopt the special arrangement under Section 50 and 10th Schedule, Finance Act, 1949, to avoid sur-tax on reserves have to pay profits tax if their profits reach the liable limit.

† Many of these are to pay 10 per cent. for 1951 onwards.

(4) Losses in any accounting period can be carried forward and deducted from the next profit ; there is no time limit.

(5) Rent payable wholly and exclusively for the purposes of the business (not being ground rent—as to which see (2) above) is always deductible. Net annual value cannot be deducted (it is deductible for income tax where it exceeds the rent or where the property is owned, so as to avoid double taxation ; that does not arise for profits tax).

(6) Dominion and foreign taxes not otherwise relieved for profits tax may be deducted.

(7) In the case of contracts extending beyond the accounting period there must be estimated the profit or loss which will result on completion, and a due proportion thereof must be included having regard to the extent to which the contract was performed in the period.

### Rate

Profits tax was charged at 25 per cent. from January 1, 1947, to September 30, 1949, with a rebate of 15 per cent. in respect of profits not distributed to proprietors, i.e., members of the company. From October 1, 1949, to December 31, 1950, the rate has been 30 per cent. with a rebate of 20 per cent. From January 1, 1951, the rate is to be 50 per cent. with a rebate of 40 per cent.

Building societies are not to pay more than 6 per cent. on their profits before deduction of interest paid on money borrowed from members or depositors. (If the tax payable calculated in the ordinary way were less than the 6 per cent. they would of course pay the smaller sum.)

Societies registered under the Industrial and Provident Societies Acts and companies with a share capital wholly held by the Crown pay 10 per cent. only.

### Abatement, etc.

Where the profits liable to Profits Tax (before abatement) plus the franked investment income (F.I.I.) do not exceed £2,000 (or the proportionate part for less than a year), they are treated as *nil*. (Losses brought forward are deducted despite this provision. If the deduction of a loss brings the profits (including F.I.I.) below £2,000 they are exempted under this head).

Where the profits, including F.I.I., are between £2,000 and £12,000, an abatement is allowed :

(*a*) If there is no F.I.I. of one-fifth of the amount by which the profits fall short of £12,000.

(*b*) Where there is F.I.I., one-fifth of the amount by which the profits (including F.I.I.) fall short of £12,000, reduced to the proportion that the profits liable exceeding F.I.I. bears to the profits liable including F.I.I.

*Example :*

| | £ | £ |
|---|---|---|
| Profits ... | 9,500 | 9,500 |
| F.I.I. ... | 500 | |

$$\text{Abatement } \frac{9{,}500}{9{,}500+500} \times \frac{12{,}000-(9{,}500+500)}{5} = 380$$

Profits chargeable ... ... ... £9,120

Here again, losses brought forward are deducted in arriving at the profits liable.

(*To be continued*)

## *ESTATE DUTY—VALUATION OF DEPRECIATING SHARES*

A reader writes to say that in our Professional Note " Estate Duty—Valuation of Depreciating Shares " (February, page 37) the Finance Act which we quoted as adding " a clause that no reduction is to be made on the assumption that the whole property is to be placed on the market at one and the same time " was not the Finance Act, 1910, as stated, but the Finance (1909-10) Act, 1910. He states that the Finance Act, 1910, was a subsequent Act passed in the same year, but had nothing to say upon the point about which we were writing.

Our correspondent is correct, but the main fault lies with the Public Accounts Committee, for we were citing the official Report of that body, which refers to the Finance Act of 1910. According to our correspondent, the mistake is frequently made these days.

The reader recalls that the passing of the Finance Bill, 1909, which was Mr. Lloyd George's now famous Bill, was delayed by the House of Lords in the autumn of 1909 until there had been a General Election. The Bill was ultimately passed, early in 1910 and after the election, under the title of the Finance (1909-10) Act, 1910.

Our correspondent also refers to the proviso to Section 60(2) of the Act—the sub-Section dealt with in our Note—which says : " Provided that where . . . the value of the property has been depreciated by reason of the death of the deceased, the Commissioners . . . shall take such depreciation into account." He states that this might, in some circumstances, be of great importance and that he has used it successfully in the valuation of shares, though writers, and even the Estate Duty Office, often seem to forget it.

Our Note, he adds, proves yet again that the " quarter-up " basis is not an unalterable " yardstick." After the death of a person who is known to have a large holding of shares in a company whose shares are quoted on the Stock Exchange, the shares are often "marked down," presumably in the expectation that a large number of these shares will be coming on the market. He suggests that perhaps for some purposes that would be depreciation caused by the death of the deceased.

# The Month in the City

## Equities and the Budget

During recent weeks the market has been subjected to the usual pre-Budget flow of White Papers, with this year the addition of the Millard Tucker Report on the taxation of company profits, *plus* such further indications of the future as can be derived from the raising of postal charges, the interim increase in railway freights and the proposals for higher passenger fares. Even before the end of the financial year brought a revenue surplus which was even larger than most people expected, the revival in equity prices had started. From a low of 119.6 on March 21 the ordinary share index of the *Financial Times* had risen to 120.9 at the end of the month. Each of the events listed above seemed to add to the impetus and the Budget speech certainly did so. At the end of that week the index stood at 125.9, while Government securities, and to a less extent other fixed interest securities, had experienced a fresh setback. This rise had occurred in face both of the disappointing nature of the Tucker Report and of the several blows struck by the Budget against equity earnings. The explanation of this development appears to lie in an increased conviction that inflation will continue and a more general appreciation of the fact that the only available hedge for the ordinary person is to hold equities. It is generally held that the hedge is very imperfect, but there is a belief this year that a change of Government, or even a change in the views of Labour, may ease the position for the holder of Ordinary shares before some of Mr. Gaitskell's additional burdens fall due for payment. Actual changes in prices, as measured by the indices of the *Financial Times*, between March 22 and April 24 are as follows: Government securities from 104.16 to 103.94, equities from 119.9 to 131.2, gold mines from 117.92 to 122.38. This general picture has to be qualified by the fact that some reversal in commodity prices, due in the main to holding off by the U.S.A., has led to weakness in the shares of some of the producing companies.

## The Rise in Equities

It may be doubted how far the niceties of Mr. Gaitskell's exposition of the inflationary gap and his means of filling it have been appreciated. The public at large is more impressed by events than by arguments, and as far as British industrial ordinary shares are concerned the relevant consideration seems to be mainly the rise in the past year. At the end of Budget week 1950 this index stood at almost exactly its level on the accession to power of the first post-war Labour Government, that is some ten points below its level while the issue was still in doubt. At the same point this year a rise of 18.5 points or over 18 per cent. had occurred and the index was at the highest for more than three years. Over the same period both fixed interest and frankly speculative securities had fallen, the former slightly and the latter in some cases considerably. On the year the yield on equities has dropped from 5.18 to 4.56 per cent., despite a considerable number of dividend increases, a clear indication that the value of this form of investment as the only available hedge is being better appreciated. Probably this factor will continue to operate, but it must be admitted that the implications of the Tucker Report and the incidence of the suspension of initial allowances, coupled with increased discriminatory taxation of company profit assessed before allowing for higher replacement costs, will not only take most of the "equity" out of Ordinary shares but lead to the impoverishment of industry in general.

## C.I.C. Activities

Of course there have been temporary factors affecting the course of market prices of which two, favourable to the rise, are the appearance of some excellent company results and the suspension of the flow of new issues. This will, presumably, be renewed when the issuing houses have recovered from their present attack of indigestion, and the fact that new instructions have been issued to the C.I.C., in relation to bonus and other issues seems to have made little difference. It is as well to await the interpretation of these new instructions, but it is difficult to see just what is intended that could not have been achieved by the different accent which the Departments concerned are bound to impart to their views on any project not connected with the defence programme.

## Publicity for the City

Throughout the past month there has been a continuous flow of talk and correspondence in the Press on the subject of making known to the public at large the part which the City plays in the national economy. Usually the chief onus is placed on the Council of the Stock Exchange as being one of the few organised bodies which has already done something in this direction. The Council and its individual members are already doing a considerable amount. It may be that they could do more, but it is doubtful whether it is feasible to secure the attention of adults in the ranges of society where ignorance of the truth is most prevalent. Certainly we must do what we can in this direction, but to secure any real change it seems inevitable that instruction in the facts of the nation's economic life should begin when people have the time to learn and have reasonably open minds, namely at school and in the years immediately after school age. Far from this type of instruction being increased and improved, the opposite seems to be the case. If we could achieve in this country as good an understanding of the facts as exists in the U.S.A. the effects upon productivity and the standard of living might be impressive.

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## *THE COST ACCOUNTANT AND PRODUCTION*

Members of the Society of Incorporated Accountants are invited to attend the afternoon session of the conference to be held by the Institute of Cost and Works Accountants on Friday, June 1.

A luncheon will be held at the Dorchester at 1 p.m.

At 2.30 p.m. papers will be delivered on "The Cost Accountant's Contribution to Increased Production as it affects (*a*) Top Management, (*b*) Production Management, (*c*) Shop Supervision." The papers will be presented respectively by (*a*) Sir Charles Bartlett, managing director of Vauxhall Motors, Ltd., (*b*) Mr. I. Hallifax, production superintendent at one of the Hoover works, (*c*) Mr. C. J. Keedy, production assistant manager, Royal Ordnance Factory, Glascoed. Discussion will be opened by (*a*) Mr. Ian M. Whyte, C.A., A.C.W.A., A.C.I.S., director and secretary, Lilley & Skinner, Ltd., (*b*) Mr. H. T. Fost, A.C.A., A.C.W.A., chief accountant, Joseph Lucas (Electrical), Ltd., Birmingham, (*c*) Mr. J. Hilton, A.C.W.A., cost accountant, Fredk. Boehm, Ltd., London. The chair will be occupied by Mr. H. Wilmot, C.B.E., F.C.W.A., managing director, Beyer Peacock and Co., Ltd., London.

Incorporated Accountants wishing to attend are asked to apply for tickets (luncheon 12s. 6d., afternoon session free) to the Institute of Cost and Works Accountants, 63, Portland Place, London, W.1.

# Points from Published Accounts

## Investment Trust Accounts

In the tabular profit and loss account given by *London and Lomond Investment Trust* there are interpolated in heavy type the gross percentage earnings on the Ordinary capital for the latest year, those for the previous year also being shown against the appropriate amount. The method of presentation is excellent, for it enables the holder of the Ordinary stock to see at a glance that it has been possible to add £10,000 to general reserve and £5,428 to the carry-forward after meeting the cost of his dividend.

Stock Exchange statisticians attach considerable importance, also, to the net asset value of the Ordinary stock, and this is given by the chairman. He also shows how the year's net revenue is distributed :

| | Percentage |
|---|---|
| Debenture stock interest .. | 20¼ |
| Preference stock dividends .. | 15 |
| Ordinary stock dividends .. | 40¾ |
| Retained by company .. .. | 24 |
| | 100 |

This enables even the dullest stockholder to comprehend that income could fall by 24 per cent. without uncovering the distribution rate. Whether in that event the dividend would be maintained is another question, but at least it can be said that the stockholder is kept fully informed.

The dividend picture is also clearly presented by *United States Debenture Corporation* in an orthodox appropriation account. Since the corporation goes to the trouble of showing extraordinary revenue and underwriting commission separately, and also the tax that these items have attracted, it is a pity that it leaves itself open to the minor criticism that the balance brought down is after bringing into account the extraordinary revenue. The net amount, small though it is at £4,369, might have been carried down separately to the appropriation account.

This account shows dividends at their gross and net amount, interim and final payments on the Preference and Ordinary stock being given separately and subtotalled. From the technical point of view it may be desirable to show separately dividends paid and dividends proposed, but there should be no obstacle to showing interim and final Preference and Ordinary dividends together so that both classes of holders can see their dividend cover at a glance.

This trust, incidentally, produces two analyses that are unusual, covering the year 1930 and the past eight years. The first shows the total income and its distribution, and the second the difference between the book value of the investments and their year-end market value. These are in addition to the usual geographical and security classifications. There is a noteworthy reluctance on the part of the Scottish investment trusts to give full information of their holdings, probably because they are unwilling to advertise their investment policy.

## The American Method

Company accounts can vary as much as the behaviour of the girl with the curl in the middle of her forehead. Some companies from time to time splash their reports with photographs of their stand at the last exhibition, still-life or action pictures of their products, pie charts, and masses of statistics. There is often an analysis of "where the money goes," and a ten-year profit and dividend record which may, or may not, acknowledge the fall in the purchasing power of the dividends, or the fall in their net amount owing to the increase in taxation, if the record should extend back to the pre-war years. (*F. W. Woolworth* and *Hoover*, though, both show the net amount of the dividends.)

We have before us the sumptuous report of the *Caterpillar Tractor Co.* of America. Sumptuous by our standards it can afford to be, for the 1950 profits were \$29¼ million, and common stock dividends \$8,470,080. There is much, much more in the report than one ever sees with a British company, the most important being the quarterly figures of profits and earnings per common share. We sometimes wonder if British companies bother to prepare statistics of this kind, for the long delays in presenting so many of their reports suggests strongly that there is not the close accounting control that should exist. Recently we have handled reports for accounting years ending March, 1950, and many for years ending June, 1950. Sometimes extraordinary factors are responsible for the delay, but broadly speaking it takes far less time to present annual reports in the U.S.A. than in this country, and this must create an unfavourable impression upon shareholders.

So also must the comparison of their British reports with American ones like that of Caterpillar Tractor, which gives a wealth of information *which has been certified by the accountants*. There are seven statements, altogether, and they give the following information :

(i) *Results of operations.* A tabular profit and loss account, setting out sales revenue, the cost of materials, wages, depreciation, interest and tax, inventories brought forward and carried forward, the profit for the year and the cost of the dividends.

(ii) *Financial position.* A tabular balance sheet, with a "profit employed in the business," instead of our formal reserves and undivided profits figures, to indicate the excess of net assets over all liabilities, including the capital.

(iii) *Results of operations.* This gives an eleven-year record (which, we emphasise again, is certified by the auditors), and the

| | 1950 | 1949 |
|---|---|---|
| Sales .. .. .. .. .. .. .. | \$337,285,327 | \$254,871,526 |
| Costs : | | |
| Inventories brought forward from previous year .. | \$64,193,505 | \$61,361,483 |
| Materials, supplies, services purchased, etc. .. | 187,669,225 | 146,645,043 |
| Wages, salaries, company contributions for group insurance, pension plan, unemployment insurance and old age benefits .. .. | 90,000,855 | 76,825,559 |
| Portion of original cost of buildings, machinery and equipment allocated to operations (depreciation) | 5,526,554 | 4,891,389 |
| Interest on borrowed funds .. .. .. | 409,692 | 552,797 |
| Federal income and excess profits taxes .. .. | 33,200,000 | 10,840,583 |
| | \$380,999,831 | \$301,116,854 |
| *Deduct* Inventories carried forward to following year .. | 72,978,789 | 64,193,505 |
| Costs allocated to year .. .. .. .. | \$308,021,042 | \$236,923,349 |
| Profit for year .. .. .. .. | \$29,264,285 | \$17,948,177 |
| Profit percentage of sales .. .. .. | 8.68 per cent. | 7.04 per cent. |
| Profit per share of common stock based on shares outstanding at December 31, 1950 (after deducting preferred stock dividends where applicable) | \$7.49 | \$4.66 |
| Dividends per share of common stock based on shares outstanding at December 31, 1950 .. | \$2.25 | \$1.75 |

figures for 1949 and 1950 are reproduced to indicate their informative nature.

(iv) *Source of net current assets.* Showing how total net current assets have been altered over the past decade by profits, issues of stock, capital profits, fixed assets purchased, dividends paid, and so on.

(v) *Financial position.* Tabular balance sheets of the past eleven years.

(vi) *Buildings, machinery and equipment.* A three-decker table showing original cost of fixed assets, the portion of original cost allocated to operations, and the balance of original cost not so allocated.

(vii) *Ownership equities.* Shows how the issued Preferred and Common stock has grown since the company's incorporation in 1925, with a record of each year's profit, dividends, profits retentions, and aggregate retentions.

This information is all extremely interesting. The point must be made that the profit and loss account and balance sheet together occupy only two pages. Comparative figures are relegated to the historical statements, it is true, but even so there was room for them in the formal picture. Not many companies in this country earn net profits o $29½ million each year and havc to circularise 19,211 common stockholders, but the cost of compiling and printing information on the admirable lines of Caterpillar Tractor should be within the compass of the great majority of public companies. Their shareholders would appreciate the information, and we might point out that Caterpillar Tractor directors are not deterred from showing that dividends paid have fluctuated between $235,306 for 1933 and $10,352,320 for the peak year of 1936.

### Second Thoughts

In the 1950 accounts of *Bradford Dyers' Association* the profit for the year 1949 before providing for taxation is shown at £1,075,297, whereas the earlier accounts showed a figure of £1,245,297. The discrepancy is to be found in the 1949 " below the line " additional provision for depreciation. In the comparative figures with the 1950 accounts this is lumped with the " above the line " depreciation provision of £482,293, and a note explaining this is given in parenthesis. For 1950, however, the depreciation provision is £791,999, and from a footnote to the accounts it is made clear that no part of this larger total provision is in the nature of a " special appropriation," as was the £170,000 transfer of 1949.

In his address for that year the chairman said that of the total depreciation set aside since 1946 £270,000 (including this £170,000) had been set aside out of *net* profits (italics are not ours). In view of this explanation it would seem that there is some confusion between a reserve and a provision. Since the £170,000 was provided from net profits (and the use of the word " net " suggests that profits are net after tax) would it not have been more correct to regard the special appropriation in 1949 as, in effect, a transfer to fixed assets replacement reserve—as a " below the line " item ?

### Additions to Fixed Assets

Some companies include with their accounts a schedule of the fixed assets, showing that additions at cost that have been made since the previous year-end, depreciation for the year, and profits (or losses) from sales. Others do not, but merely show a comparative figure for the net value ; to our way of thinking this does not bring the shareholder into the position sufficiently. The wording of the Companies Act is not as far-reaching as it might be on the subject of comparative figures generally, but we should like to see the accountancy profession taking the lead by seeing to it that there appears a comparable figure for the preceding year *for every single item in the accounts.*

### " Normal " Net Profit

The belief has been expressed many times in these columns that the shareholder should be enabled to see at a glance the " normal " net profit of the year available for his dividend. That is to say, non-recurring windfalls and debits should be relegated below the line. Where the dividends are handsomely covered, as is the case with *William Hollins*, the point is perhaps of minor importance. But in the parent's profit and loss account there is shown an " above the line " debit of £85,108 for pensions, which includes £62,677 for the purchase of annuities for existing pensioners. This may well be a non-recurring item, seeing that the previous year's total debit for pensions was £22,907, and it would, we think, have been preferable to make the point quite clear. It could with advantage have been stated, furthermore, whether or not this debit was allowable as a charge against profits before computing the tax liability.

## *COMMISSIONS IN THE R.A.P.C.*

The Royal Army Pay Corps, the accounting branch of the Army, is in need of qualified officers. Short service commissions are being offered to released emergency commissioned officers, National Service officers who have completed their service, officers who have held type " B " short service commissions, and former officers in the Forces of Commonwealth countries.

Ex-officers in one of these classes are eligible if they are not over 45 years of age, and have had previous commissioned service in the R.A.P.C. or possess accounting, banking or secretarial qualifications or a degree in economics or commerce. Those accepted will be granted short service commissions for eight years, two years or more of which may be spent on the Active List and the balance on the Regular Army Reserve. The rank on appointment will be the previous substantive rank held, with eligibility for substantive promotion by time and otherwise.

During their short service commissions officers may be considered for regular commissions.

Details of pay and allowances are given in a White Paper (Command 8027, His Majesty's Stationery Office, price 4d. net). Further particulars of the commissions, including gratuities and the possibilities of subsequently obtaining a regular commission, may be obtained from the Under Secretary of State, War Office (F.9 (*a*)), Whitehall, London, S.W.1.

### Wage Incentive Schemes

A useful study of the general principles of wage incentive schemes, and of the particular versions in operation, has been issued by the Ministry of Labour. Some evidence exists that schemes have recently been introduced without adequate preparation, and the Ministry's booklet is to be welcomed as giving further information about a subject on which the literature is sparse. It is entitled *Wage Incentive Schemes* and is obtainable from His Majesty's Stationery Office for 1s. 6d. net.

# Publications

NATIONAL INSURANCE AND ASSISTANCE IN GREAT BRITAIN. By David C. Marsh. (*Sir Isaac Pitman & Sons, Ltd. Price 20s. net.*)

This is a compact book of about 180 pages for those who require to be knowledgeable about social insurance without becoming submerged in a mass of Statutes and regulations.

The work is fairly evenly divided into two parts. Part I traces the development of communal provision against poverty and distress from the Elizabethan Poor Laws to the insurance concept of the present century. Part II deals with the existing system of " social security for all " which came into being following the Beveridge Report.

Mr. Marsh contrives to balance an excellent description of changing social attitudes with a clear and precise presentation of the main provisions of the various statutes with which he is dealing. His book, therefore, has the special advantage of being valuable to the student as well as interesting to the general reader.

The volume is more comprehensive than its title, for it covers not only National Insurance and Assistance but also the Industrial Injuries scheme and the National Health Service. In each case there are outlined the classes of persons covered, the benefits provided and the conditions for claiming them, and the method of financing the benefits. In the course of half a dozen chapters the author conveys all that anybody who is not a specialist could reasonably require to know about these comprehensive and somewhat complex social security arrangements.

This, however, is a critical work as well as a descriptive one. For example, the question is raised of the adequacy of the various rates of benefit, and whether they can really ensure a reasonable level of subsistence without frequent adjustment. Then Mr. Marsh points out that the recent increase of the National Assistance scales to a level above that of the National Insurance benefits may well give rise to anomalies between these two branches of the social legislation. Attention is also called to the preponderance of the cost of retirement pensions, especially when the number of pensioners reaches eight millions, as it will do in less than twenty years. Mr. Marsh asks whether an attempt should not be made to lessen the burden, either by lowering the rate of benefit (which might not be practicable) or by raising the retirement age. In regard to widow's benefit, it is claimed that social justice would be better assured if a benefit during training for employment were provided and if the widow were allowed a higher rate of earning before the pension was reduced. These are but a few of the many important questions raised for consideration and discussion.

Finally, there is a chapter dealing with the economic aspects of social security, in which the author emphasises that the benefits are not " free " even though they are not paid for at the time they are received. How much we can afford for this purpose depends both on the total amount of the national income and on the other claims, such as defence, housing and education, which have to be met from it. H. L.

STUDIES IN ACCOUNTING. Edited by W. T. Baxter. (*Sweet and Maxwell, Ltd., London. Price 23s. 6d. net.*)

This book is the first of a series of volumes sponsored by the Association of University Teachers of Accounting. It consists of a collection of articles and papers printed and given in this country and in the U.S.A. over a long period by leading members of the accountancy profession, financial writers and economists. No attempt is here made to criticise the views expressed by these writers, and any comments are confined to the book as a whole.

The 429 pages of the book comprise nine sections, mostly consisting of several articles or papers on history, fraud, law, final accounts, management, theory, depreciation, accountants and the price level, and nationalised industries. In all, there are 26 contributions; six of them are in the section " Final Accounts " and eight in the section " Accountants and the Price Level."

The editor is the Professor of Accounting at the University of London. His collection, taken as a whole, will perhaps have a greater appeal to the teacher and advanced student of accountancy than to the professional or industrial accountant. However, a number of chapters will certainly be of considerable interest to practical accountants. This is particularly true of the chapters on the final accounts of companies, their presentation and interpretation, and those on the depreciation and valuation of stocks in relation to the post-war price level.

The editor has clearly gone out of his way, with considerably success, to reproduce articles that stress the main points of controversy and adopt unconventional attitudes. In his introduction he expresses the view that the battlefields of conflicting theory provide the best training ground in abstract reasoning that accounting can offer to students. The student will find much material here with which to enter into discussion with his fellows, and, especially, to use in forming his own opinion on the controversial subject of " historic accounting " *versus* " accounting for the future."

One word of warning should be given. Since the papers and articles are reproduced as originally written, a number of passages offend the present company law. The reader should constantly bear in mind the date of the original article or address, especially when it was before the passing of the Companies Act of 1948.

T. H. N.

JORDAN'S COMPANY LAW AND PRACTICE. 19th edition, by L. J. Morris Smith and Stanley Borrie. (*Jordan and Sons, Ltd., London. Price 30s. net.*)

During the past few years the absence of an up-to-date edition of *Jordan's Company Law* has been much felt by the many practitioners who habitually used it and to them this latest edition will need no recommendation. To those unfamiliar with earlier editions the contents of the book should make plain its purpose and its utility. The main part consists of an alphabetical guide to company law under such headings as auditor's report, bonus shares, minutes, etc. The appendices contain the full text of the Companies Act, 1948, and the Companies (Winding-Up) Rules, 1949, and tables showing the corresponding Sections of the Companies Acts, 1947 and 1948, and of the Companies Acts, 1929 and 1948. There is also a list of the statutes to which the 1948 Act refers.

To the accountant, secretary or director who wants a quick and reliable answer to the questions of company law that arise from day to day the book should be most helpful. The headings are well chosen and it is easy to find one's way about. Stamp duties are particularly well explained. The treatment is designedly not full enough to elucidate any abstruse point of law and, indeed, some matters included in earlier editions have been omitted, on the ground that they are no longer of general interest. On the whole these omissions are well justified and a larger book would have defeated its essential purpose. It is perhaps a pity that the duties of liquidators are not more fully explained and a special index might with advantage have been supplied for the Winding-Up Rules and Forms. The differences in the law applicable to companies registered in Scotland are noted under the appropriate headings, but a separate list would also be helpful. These, however, are at the most but minor blemishes upon a book that is as well printed as it is useful.

A. P. F.

# Legal Notes

*Bankruptcy—Rights of set-off*

In **re a Debtor (No. 21 of 1950)** (1951, 1 A.E.R. 600), judgment creditors for the sum of £409 had obtained a receiving order against the debtor, but on appeal this order was set aside for technical reasons and the creditors were ordered to pay the costs of the proceedings, which amounted to £72. The creditors applied for a stay of execution in respect of this sum. The debtor objected on the ground that a stay of execution would in effect be a set-off and that a set-off should not be allowed, because (*a*) it would prejudice the lien of the debtor's solicitor, and (*b*) it would give the creditors undue preference over other possible creditors.

The court agreed that in effect a stay of execution amounted to a set-off, but they decided that they had a discretion to grant a stay and that this was a proper case in which to make a grant. On the first point taken there was no reason why the creditor should pay the debtor's solicitor if the debtor was unable to pay. On the second point there was no bankruptcy in this case as the receiving order had been set aside, and, in any event, money set-off under an order of the court could not constitute an undue preference.

The decision should be carefully noted because the court expressly disapproved the statements of text-books that costs given in bankruptcy can only be set-off against other bankruptcy costs.

***Payment of commission on orders obtained through servant during his employment and executed after termination of that employment.***

S. was employed as an advertising representative upon terms that he was to be paid a salary of £3 a week and also a commission upon the execution of orders which he obtained for advertising space in his employers' newspapers. He obtained orders of various kinds—for single insertions, for insertions in a fixed number of issues and for insertions that were to continue regularly until stopped. On April 28, 1950, his employers gave S. a week's notice, and he claimed in the County Court for damages for breach of contract and for an account.

The County Court Judge held that a month's notice ought to have been given, and that S. was entitled to damages for the salary and commission he would have earned up to May 28, 1950. Both S. and his employers accepted the finding that one month was the reasonable length of notice, but in **Sellers *v.* London County Newspapers** (1951, 1 A.E.R. 544) S. appealed to the Court of Appeal on the ground that he was entitled to commission on all orders which he had or might have obtained up to May 28, 1950, even though those orders were not executed until after that date. He made no claim for commission on " repeat " orders, i.e., subsequent orders given direct to the newspapers by customers whom he had originally introduced.

All the members of the court agreed that the vital matter to consider was the exact terms of the contract. The Master of the Rolls in a dissenting judgment said that a distinction must be drawn between agents and servants. An agent instructed to perform a particular piece of business was entitled to his commission when he had done the necessary work, even though the other party purported to terminate the agency before the commission became payable. A servant, however, was *prima facie* entitled to remuneration, whether it were salary or commission, only during the period of his employment and there was nothing in the contract which provided otherwise. The majority of the court, however, held that in this case no such distinction should be drawn: under the contract commission was only due upon the execution of orders, and this might be some time after the orders had been obtained; the servant had done the work and there was nothing in the contract which disentitled him to payment for it.

*Stamp Offences*

By Section 4 (1) of the Stamp Duties Management Act, 1891, it is an offence for any person, who is not duly appointed to sell and distribute stamps, to deal in any manner with stamps without being licensed so to do. Stamps now include National Insurance stamps as well as postage stamps. The sub-Section is framed so widely that a man who sells a 1d. stamp to a friend is almost certainly committing an offence, and though in practice no prosecution is ever likely to follow such a simple transaction, the recent case of **Winkle *v.* Wiltshire** (1951, W.N. 134) has shown the danger of buying stamps except from a post office or an authorised dealer. In that case W. was summoned under the Post Office Act, 1908, Section 65 (1), for having in his possession fictitious insurance stamps without lawful excuse. He had bought the stamps from an acquaintance at slightly less than their face value. It was found that he acted in complete good faith and without any knowledge that the stamps were forged. Nevertheless, it was held that he had no lawful excuse for possessing the fictitious stamps, for he had bought them from an unauthorised dealer.

*Rent Restriction—Separate letting of dwelling and business premises.*

These notes have rarely referred to any of the rent restriction cases that come before the courts in such large numbers. But the recent case of **Cumbers *v.* Robinson** (1951, 1 A.E.R. 661) does seem to be of sufficient interest to warrant special mention. It is well known that if a dwelling house and business premises are let together and the rent or rateable value of the combined premises is less than £75 in the country or £100 in London, the combined premises will be subject to a standard rent. If the landlord obtains vacant possession of the premises and re-lets the dwelling and the business premises to different tenants, the rent of the dwelling will be controlled but the rent of the business premises will not be controlled. If, however, he re-let both dwelling and business premises to one tenant, even under separate leases, it was thought by almost all practitioners that the rent of the whole would be controlled. The Court of Appeal has now decided that this view is wrong. If landlord and tenant intend that each part should be let separately, then, just as if each part had been let to a different tenant, the rent of the dwelling is controlled and the rent of the business premises uncontrolled.

THE SOCIETY OF

# Incorporated Accountants

## "BALANCING" IN THE ARMY

Field-Marshal Sir William Slim was the guest of honour at the meeting of the Luncheon Club of the Incorporated Accountants' London and District Society, held on April 5. Mr. D. Mahony, F.S.A.A., Chairman of the District Society, presided.

Field-Marshal Sir William Slim said that he had seen accountants at work in many parts of the world. Sometimes they had been working on him—and that was not quite so good! However, he long ago learned to appreciate that the British professional accountant was very much more than a mere manipulator of figures : that he was a counsellor whose advice one was extremely wise to heed in matters going beyond mere figures. The British accountant, like the British consultant in most fields, held an extraordinarily high place abroad. Sir William said that he had spent quite a deal of his time in countries where the astute business man—and they were all pretty astute—kept three sets of books : one for himself, one for his partner and one for the Inland Revenue. An accountant surely found a great deal to do in those countries !

Recently he had again been touring the East. He found that as British political control grew less there, so more and more did people in commerce and industry turn to the British professional men for guidance, with complete reliance on their integrity. Indeed, the standing of the British accountants and other professional men was an immense invisible asset of Great Britain. He believed that in the Far East and in the Near East there were greater openings for British industry and commerce than there had ever been before.

When it came to the actual mechanics of accountancy, however, he retired, because he had never yet failed to get the balance of his own private financial account on the side on which he did not want it. There was so much of which he was ignorant, like a young lady friend of his—she was a very young lady of only four, so that part of it was all right ! Her mother gave her an ice cream, which she ate with great enjoyment but very thoughtfully. "Mummy," she said, at last, "there are some things I don't understand." "What are they ?" asked her mother. "Well, I can understand eggs from hens and milk from cows," she replied, "but I can't understand ice cream from Lyons."

Balances entered into all their lives, and one of the biggest balances they had to keep in this country was the balance between recovery and security. Whatever the Government, it was faced, as its main task, with holding a balance between recovery and security, and that was not an easy thing to do.

He was engaged very much on the side of security, continued Sir William, and one of his jobs was to go to the Chancellor of the Exchequer to try to get some more money from him. He had had long and intimate conversations with Sir Stafford Cripps and with Mr. Gaitskell, and on the whole he did not think he had done too badly.

They in the Army were also faced with their own problems. One of the biggest was to keep a balance—again, another of these balances !—between what they had to *do* in the cold war and what they had to do to *prepare* for a hot war, if it came. Those things were often contradictory. The cold war, which went on all the time, required them to scatter their forces all over the world. And very often it was not so cold : the war in Korea was quite hot ! For the cold war they needed a highly trained, comparatively small Regular Army. For the hot war, on the other hand, if it came, they wanted a concentrated but very much larger Army.

In many ways the same struggle went on with regard to equipment. Should they spend five or six millions on research for producing, say, a guided missile, which would probably be of great use to them if they had a great war, or should they spend it on jigging up their present tank production for the cold war ?

In the Army to-day there were several kinds of soldiers. There was the Regular, who was the backbone. He was the long-service soldier, who produced the senior non-commissioned officer and, often, the commander and higher staff man. They had not so many Regulars as he would like. The Regular Army did provide a good career. Though he would not admit that it was adequate, the pay was at any rate not too bad, comparing fairly favourably with that in civil life. One of the great drawbacks to the Army was that a man of 40 or 45 years of age who was not outstanding and not very successful in climbing the pyramid, which always got smaller at the top, was sometimes left with an inadequate pension at a time of life when it was difficult to find re-employment. Now they had a scheme under which that would not often happen. He believed that Regular officers would be found an increasing number of jobs which did not require complete and absolute physical combat efficiency, thus much extending their Army careers. There were one or two other things he had to talk to the Chancellor of the Exchequer about, which might also help, but he could not say anything about those yet.

Then there was the National Service man, who formed the largest component in the Army. He had seen the equivalent soldiers of other countries, and he was sure that the British need fear no comparison at all.

There was another class which would be coming back into the Army—the Z Reservist. And, said Sir William, if any of them there were Z Reservists and did not like it, he had himself to take the responsibility—because he started the idea. The Territorial Army would not be up to strength for another two years ; it was being filled by the National Service men after they had completed two years' engagement. If anything happened within the next two or three years the Territorial Army, which would be the greater part of the Army, would have to be filled from reservists. Demobilisation was carried through in rather a hurry—in that he thought they were right. They wanted to get the men back into civil life quickly. But that did not lend itself to keeping very complete records of and tabs on all those fellows ; therefore he thought it would be only a wise precaution "to have a little preliminary run through," to get these men up to see how mobilisation would work, and to let them renew their acquaintance with their regiments, so that they should know to what unit they would go to if a war did come, and so that the officers would know the men. Also he wanted the men to become acquainted with some of the new refinements in weapons that had been introduced. The intention was that the fortnight they spent with the Army should be a time of hard work for them. He did not think they would appreciate it if they were called up and then kept waiting about.

Finally, there was the Territorial Army, based largely on its volunteers. Formerly it was an entirely voluntary Army. Now it was getting the reservists and the National Service men, but a proportion were still volunteers, and they were doing the hardest work. He had not found anywhere—at any rate in any of the larger businesses—any reluctance on the part of employers to allow their men to join the Territorial Army.

But he would like them to go a little

farther, especially those who employed considerable numbers of men or were in contact with those who did. He would like them to encourage a man to become a volunteer in the Territorial Army. If the whole Territorial Army were filled with volunteers it would take only 2·5 per cent. of the labour force. That would be serious, but not catastrophic. But that was the percentage only if they went away to be Territorials all day long. However, they had to do only a fortnight's training in the year, only 5 per cent. of their time. He made 5 per cent. of 2·5 per cent. only ·125 per cent. All the Army was asking industry to face was a loss of ·125 per cent. of man-days a year in order to supply the whole Territorial Army with volunteers.

### *NATIONAL POVERTY AND GREATNESS*

THE ANNUAL DINNER OF THE INCORPORATED Accountants' South Wales and Monmouthshire District Society was held at the Whitehall Rooms, Park Hotel, Cardiff, on March 15. Mr. J. D. R. Jones, F.S.A.A., President of the District Society, was in the chair. The guests included the Lord Mayor of Cardiff (Alderman George Williams, C.B.E., J.P.), Mr. L. Howles, M.I.E.E., M.I.STRUCT.E. (Chairman of the South Wales Electricity Board), Mr. A. Stuart Allen, F.S.A.A. (President of the Society of Incorporated Accountants) and Mr. I. A. F. Craig (Secretary), Sir Percy Thomas, O.B.E., LL.D., D.L., J.P., Mr. G. E. Aeron-Thomas (Chairman, National Coal Board, South-Western Division), Mr. R. G. M. Street (President, the Cardiff Incorporated Chamber of Commerce), and representatives of other professional bodies.

Mr. W. J. Fooks, F.S.A., Vice-President of the District Society, proposing the toast of "Prosperity to South Wales and Monmouthshire," said that many industrial projects had been started in South Wales, but they might have had some unfavourable reactions on coal shipments. They must be prepared to put into the job all that they had rather than to take out all they could, and in that way prosperity would be a reality rather than a memory.

The Lord Mayor of Cardiff (Alderman George Williams, C.B.E., J.P.), responding, said that the time was coming when a capital of Wales should be designated. Wales was the only nation in the British Commonwealth that had no capital—and it was a nation fit to stand alongside, work with and if necessary fight with all the other nations which formed the Commonwealth. The decision had to be made by Wales itself because it was a domestic matter. When Cardiff was designated the capital, and he hoped it would be, then the city would have to accept the responsibilities that went with the privilege. Cardiff would see to it that the rural areas would be brought nearer by means of better communications. It would be necessary to bring the central road through Wales into actuality. Cardiff would lead Wales back to prosperity.

He thought there was a brilliant future for South Wales.

Mr. L. Howles, M.I.E.E., M.I.STRUCT.E., chairman of the South Wales Electricity Board, proposing the toast of "The Society of Incorporated Accountants and Auditors," said that the Society had done an enormous amount of work to increase the prestige of accountants in the country. There was something to be learned from the fact that so much importance was being placed on accountants and auditors in these days. It carried with it a very heavy responsibility which the Society was meeting to the full. The Society was seeing that there were fully qualified accountants for private practice and for industry. There were many young fellows in the accountancy branch of his Board who wanted to get the qualification of Incorporated Accountant. He felt that the coming into being in this country of nationalised industry on a large scale brought with it responsibilities for the professional bodies. Service with a fully qualified accountant in a nationalised industry would not qualify a person to enter the ranks of the Society of Incorporated Accountants. This was unfortunate; it would be of mutual advantage and a great national gesture if properly accredited members could take pupils in nationalised industries. They might for 18 months or two years change places with articled clerks in private practice; so both groups would gain wider experience. He might be considered bold in suggesting this to a society as old as the Society of Incorporated Accountants, which had such a high prestige, but we were living in changing times. No commercial house could carry on if it did not see that its economy was properly controlled by a first-class qualified accountant. The Society was doing a splendid job in training.

Mr. A. Stuart Allen (President of the Society of Incorporated Accountants), said that he would like to assure the members that the problem which had been mentioned by Mr. Howles—the infiltration of accountancy into commerce and industry to a degree that was not anticipated many years ago—was engaging the attention of the Council. We were living in a changing world.

South Wales was the only District Society he had visited twice during his period of office as President, and this was probably the last function of its kind that he would attend in that capacity.

The year 1949 was overshadowed by the "dollar crisis," which culminated in the devaluation of sterling. In 1951 we were facing an emergency of different and more anxious portent, the significance of which had been expounded by all with authority to speak—and even more lengthily by those without. They were awaiting the Chancellor's pronouncement of the fiscal consequences.

Britons were prone to believe that their country was destined to be great and powerful. But greatness was a dynamic, not a static, condition: they must seek it, and clear perception of the present position was essential. Symptoms of national poverty were the rationing schemes, quotas and exchange restrictions. These were useful in a temporary emergency, but no tyrant had ever wielded an instrument more potent than control of the means of life of his subjects.

They must aim at a greater measure of self-sufficiency than was possible at present in this over-populated island. Meanwhile their achievements must be such as to convince other countries that Britain had an essential function to perform in building a world in which prosperity and peace might be re-established.

Mr. J. D. R. Jones, F.S.A.A., President of the South Wales Society, proposed the toast of "Our Guests." Sir Percy Thomas, O.B.E., LL.D., D.L., J.P. (Past-President of the Royal Institute of British Architects), in response, described the restoration of Incorporated Accountants' Hall as a fascinating job, and the Festival concert hall which faced it as a bold perforated block of stone which passed for modern architecture. It was said that each generation could be judged by the buildings that it left. What was this present generation going to leave behind it? Since 1938, and as far as could be seen ahead, there were no monumental buildings for his profession to erect. But great organisations were for almost the first time employing architects to erect their buildings—factories, power houses and bridges.

Mr. R. G. M. Street, President of the Cardiff Incorporated Chamber of Commerce, also replied to the toast.

### *EVENTS OF THE MONTH*

MAY 1
*London:* Luncheon. Abercorn Rooms, Liverpool Street, E.C.2, at 12.30 for 1 p.m. Admission 12s. 6d.

MAY 1, 2 AND 3
Society's Examinations.

MAY 3
*Bournemouth:* Visit to a local concern using machine accounting.

MAY 22

*Portsmouth :* Special meeting to discuss examination problems. Gas Demonstration Rooms, at 6.15 p.m.

MAY 23

*Society of Incorporated Accountants :* Annual general meeting, 2.30 p.m. Extraordinary general meeting, 3 p.m. *Incorporated Accountants' Benevolent Fund :* Annual general meeting, 3.30 p.m. Hall of the Chartered Auctioneers' and Estate Agents' Institute, 29, Lincoln's Inn Fields, London, W.C.2.

*Southampton :* Special meeting to discuss examination problems. 8-10, Portland Terrace.

MAY 24

*Bournemouth :* Special meeting to discuss May examination papers. Wedgwood Restaurant, Albert Road, at 6.30 p.m.

## *COUNCIL MEETING*

MARCH 21, 1951

*Present :* MR. A. STUART ALLEN (PRESIDENT), Mr. C. Percy Barrowcliff (Vice-President), Sir Frederick Alban, Mr. Edward Baldry, Mr. Robert Bell, Mr. R. M. Branson, Mr. F. Sewell Bray, Mr. A. Brodie, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. A. Hannah, Mr. L. C. Hawkins, Mr. C. A. G. Hewson, Mr. Walter Holman, Mr. H. O. Johnson, Sir Thomas Keens, Mr. W. H. Marsden, Mr. A. E. Middleton, Mr. Bertram Nelson, Mr. T. H. Nicholson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. Ritchie, Mr. A. E. Starkie, Mr. Percy Toothill, Mr. Richard A. Witty, Sir Richard Yeabsley, with the Secretary and the Deputy and Assistant Secretaries.

### THE LATE MR. A. H. EDWARDS AND MR. J. C. FAY

The Council stood in silence in tribute to the memory of Mr. A. H. Edwards and Mr. J. C. Fay and adopted the following resolutions :

(1) The Council of the Society records with profound regret the death on February 5, 1951, of Mr. A. H. Edwards, who was admitted to the Society in 1901 and had been a member of the Council since October, 1949. The Council tenders to Mrs. Edwards and her family its deepest sympathy in the great loss she has sustained.

(2) The Council of the Society has learned with deep regret of the death on February 16, 1951, of Mr. J. C. Fay, who was a member of the Society's staff from 1909 to 1945 and was secretary of the London Students' Society for 26 years. The Council tenders to Mrs. Fay and her family its deepest sympathy in the great loss she has sustained.

### REPORTS OF COMMITTEES

Reports were received of recent meetings of the Finance and General Purposes, Applications, Conditions of Entry, and Development Committees and of the Board of Examiners.

The Council received the minutes of a meeting of the Advisory Council of the South African Branches held in Johannesburg on November 22, 1950.

### LONDON CHAMBER OF COMMERCE

Payment was approved to the Commercial Education Department of the London Chamber of Commerce of an annual contribution of £5 5s. to the expenses fund and of £10 10s. for a special accounting prize.

### INCORPORATED ACCOUNTANTS' HALL

It was reported that the contractors estimated that all work would be completed at the Hall by May 19. The Society s administration tentatively planned to move back to the Hall between May 7 and 11.

The following rates for letting accommodation at the Hall were approved :

| | £ | s. | d. |
|---|---|---|---|
| *Great Hall* | | | |
| Up to 4 hours .. .. | 8 | 8 | 0 |
| For each subsequent hour .. | 2 | 2 | 0 |
| *Committee Room* | | | |
| Up to 4 hours .. .. | 5 | 5 | 0 |
| For each subsequent hour .. | 1 | 1 | 0 |
| *Great Hall and Committee Room* | | | |
| Up to 4 hours .. .. | 12 | 12 | 0 |
| For each subsequent hour .. | 2 | 2 | 0 |

### SIR JAMES MARTIN MEMORIAL EXHIBITION

The Council unanimously resolved that the Sir James Martin Memorial Exhibition for the November, 1950, Intermediate Examination be awarded to Anthony William Gross, articled to Mr. F. L. Rouse (F. L. Rouse & Co.), Beaconsfield.

### MEMBERSHIP

The Council considered applications for advancement to Fellowship, for admission to membership of the Society, and for registration as members in retirement.

### RESIGNATIONS

The resignations of the following members were reported : Mr. C. D. Applegate (Associate), Wantage ; Mr. W. Harling (Associate), Manchester ; Mr. C. F. Holroyd (Associate), Manchester ; Mr. W. J. Saunders (Fellow), Toronto ; Mr. W. H. Wilson (Associate), Leeds. The resignation of Mr. C. H. Harris (Associate), Bristol, would take effect on June 30, 1951.

### DEATHS

The Council received with regret a report of the death of each of the following members : Abey, H. (Fellow), South Shields ; Cannon, H. M. (Associate), Durban ; Edwards, A. H. J.P. (Fellow), Dorchester ; Francis, H. V. (Associate), London ; Harward, J. (Associate), Hull ; Johnson, A. J. (Fellow), Winchester ; Jones, P. G. (Fellow), Moreton Pinkney ; Morgan, C. G. (Fellow), Croydon ; Simpson, J. (Fellow), Sydney, N.S.W. ; Thoseby, J. (Fellow), Bradford ; Tyler, E. A. (Fellow), London ; Wentzell, E. W. (Associate), London ; Whalley, E. S. (Fellow), Liverpool.

### SIXTH INTERNATIONAL CONGRESS ON ACCOUNTING

The Council received a report on recent meetings of the Congress Council.

### ANNUAL REPORT AND ACCOUNTS

The draft report and accounts for the year 1950 were approved.

### COUNCIL VACANCY

The Council unanimously decided to appoint Mr. Hedley John Bicker, Fellow, Bournemouth, under the provisions of Article 48, to fill the vacancy on the Council caused by the death of Mr. A. H. Edwards.

## *DISTRICT SOCIETIES*

### *HULL*

THE INCORPORATED ACCOUNTANTS' HULL and District Society held its first residential course for students during the week-end from March 30 to April 1 at Thwaite Hall, Cottingham, East Yorkshire, one of the halls of residence of University College, Hull. The course was attended by over 60 members and students, under the chairmanship of Mr. S. King, President of the District Society, who was supported by members of the committee and by Miss P. E. M. Ridgway, a member of the Council.

The lectures and discussions were of a high order, the amenities provided by the staff of Thwaite Hall were excellent, and there was a spirit of enthusiasm and goodwill throughout. The course was particularly appreciated by members from outlying areas who have few opportunities of attending lectures in Hull or Grimsby.

Mr. H. I. Loten, O.B.E., J.P., Chairman of University College Council, expressed the hope that the course would become an annual event.

The week-end programme provided for a conducted tour of Beverley Minster, while others visited the Hull City v. Cardiff football match at Boothferry Park. A service on Sunday morning was conducted by the rector of Cottingham (Rev. W. R. Hebron).

## *LONDON STUDENTS' SOCIETY*

### CRICKET TEAM

It is hoped to arrange some cricket matches during this coming summer. Members who wish to play are requested to forward their names to the Secretary.

*A report of the annual general meeting of the London Students' Society, held on April 2, will appear in our next issue.*

### *SOUTH OF ENGLAND*

THE MANAGEMENT ACCOUNTING TEAM OF the Anglo-American Council of Productivity spent a week-end in Bournemouth to celebrate the anniversary of their sailing for America last year. A joint meeting of Chartered, Incorporated, Certified and Cost and Works Accountants was privileged by the attendance of all the twelve members of the team, who discussed the subject matter of their report and answered questions raised by a large and appreciative audience.

### *PERSONAL NOTES*

Messrs. Thomas May & Co., Incorporated Accountants, Leicester, announce with regret that owing to continued ill-health Mr. R. M. Branson, F.S.A.A., has retired from the partnership after an association extending over 42 years. The practice is being carried on by the remaining members of the firm.

One of the new Justices of the Peace who have been appointed in Bradford is Mr. L. B. Smith, F.S.A.A., of Stoney Ridge, near Bingley, who is senior partner in Smith and Hayward, Incorporated Accountants, of Bradford, and a director of several companies in that town.

In the New Year Honours List Squadron-Leader Oswald Gradon, an Associate of the Society, received the O.B.E. It is regretted that his name was wrongly printed in our last issue.

Brevet-Colonel (Hon. Col.) N. B. Hart, O.B.E., F.C.A., A.S.A.A., a partner in Messrs. Stephenson, Smart & Co., has been appointed a Deputy Lieutenant for the County of Lincolnshire.

Mr. H. F. White, F.S.A.A., Leeds, has taken into partnership Mr. W. E. Wilson, A.S.S.A., and Mr. A. L. Braithwaite, A.S.A.A. The practice will be continued under the existing firm name of H. F. White & Co., Incorporated Accountants.

Messrs. F. L. Gardiner & Co., Scarborough, have taken into partnership Mr. Ronald Huggins, A.S.A.A.

Messrs. Forster & Stott, Incorporated Accountants, York and Thirsk, have taken into partnership Mr. O. W. Balls, A.S.A.A.

Mr. T. H. Jackson, A.S.A.A., and Mr. Charles Bunting, A.S.A.A., have entered into partnership in the firm of T. H. Jackson and Bunting, Incorporated Accountants, Nine Elms Square, Scarborough.

Mr. G. O. Lind, A.S.A.A., hitherto practising as Lind & Co., Incorporated Accountants, at 338, Streatham High Road, London, S.W.16, announces that he has entered into partnership with Mr. H. C. Allen, A.C.A., and Mr. Rowland J. Feakins, A.S.A.A. They will continue the practice under the firm name of Lind & Co., at the same address.

Messrs. Scott & Paterson, Chartered Accountants, Edinburgh, announce that their senior partner, Mr. H. M. D. Watson, C.A., has retired. The practice will be continued by the remaining partner, Mr. W. A. Scott, C.A., F.S.A.A., and by Mr. Angus MacBeath, C.A., A.C.W.A.

Mr. E. T. Coulson, A.C.A., Mr. T. H. Jackson, A.C.A., A.S.A.A., Mr. T. Hudson, A.C.A., and Mr. J. K. Snow, A.C.A., formerly practising in partnership as Robinson, Coulson, Jackson & Co., Chartered Accountants, at Scarborough, Filey, Kirbymoorside and Helmsley, announce that the partnership has been dissolved. Mr. E. T. Coulson, Mr. T. Hudson and Mr. J. K. Snow will continue in practice in the present offices at Scarborough and Filey under the name of Robinson, Coulson & Co. Mr. T. H. Jackson will continue in practice in partnership with Mr. Charles Bunting, A.S.A.A., at 9, Alma Square, Scarborough, and in the present offices at Kirbymoorside and Helmsley, under the name of T. H. Jackson and Co.

Messrs. Slipper & Co., Incorporated Accountants, Bridgeway House, Hammersmith Bridge Road, London, W.6, and Worthing, have taken into partnership Mr. R. J. F. Slipper, A.S.A.A. The title of the firm remains unchanged.

Messrs. Smailes, Holtby & Gray, Chartered Accountants, Hull, have taken into partnership Mr. J. Hankinson, A.C.A., Mr. R. C. Copeman, A.C.A., A.S.A.A., and Mr. C. N. Bruce, A.C.A., who have been associated with the firm for many years. The firm name remains unchanged.

The partnership of Messrs. Billsons, Cullen & Broome has been terminated by mutual consent. Mr. W. B. Cullen, F.C.A., has retired from the firm to devote full time to his various directorships. Mr. E. P. Broome, F.C.A., and Mr. C. M. Foxon, F.S.A.A., will continue the Nottingham practice under the style of Broome, Foxon and Co. The London practice will be continued by Mr. D. McKelvie, C.A., under the style of Donald McKelvie & Co.

Mr. W. R. Yaxley, F.S.A.A., Shrewsbury, has taken into partnership Mr. T. F. Davies, A.S.A.A. The firm name will be changed from Yaxley, Hallett & Co. to Yaxley, Davies & Co., Incorporated Accountants.

Messrs. Spicer & Pegler, Chartered Accountants, have taken into partnership Mr. B. R. Pollott, A.C.A., A.S.A.A., and Mr. H. S. Rose, A.C.A., who have been associated with them for some years.

Mr. T. F. Chater, F.C.A., A.S.A.A., Kettering, announces that he has taken into partnership Mr. G. R. Drever, Incorporated Accountant, and Mr. A. W. Morris, Incorporated Secretary, both of whom have been on his staff for some years. The firm name, Cattell and Chater, will remain unchanged.

### *REMOVALS*

Messrs. Radford, McColl & Co., Incorporated Accountants, advise that their address is now 68A, The Avenue, Southampton.

Messrs. C. Wardle & Co., Incorporated Accountants, have removed to 32, North Albert Street, Fleetwood, Lancs.

Messrs. Holmes, Cox, Lewis & Co. announce that their address is now Rooms 58-61, Exchange Buildings, Selborne Avenue, Bulawayo.

Mr. J. A. Flowers, Incorporated Accountant, is now practising at 13, Trinity House Lane, Hull, and not, as heretofore, at Willerby.

### *OBITUARY*

#### ARTHUR ERNEST AUKER

We regret to announce that Mr. Arthur E. Auker, F.S.A.A., senior partner in Messrs. Auker, Horsfield & Longbottom, Incorporated Accountants, Bradford, died on March 22. Mr. Auker qualified as an Incorporated Accountant in 1911—when he was already in practice in Bradford—and became a Fellow of the Society in 1917. His partners, Mr. Ernest Longbottom, A.S.A.A., and Mr. Edward Ingle, A.S.A.A., are continuing the practice under the same firm name.

#### WILLIAM CHARLES CATTELL

It is with regret that we announce that Mr. William Charles Cattell died on March 8 at the age of 91. Mr. Cattell became a member of the Society of Incorporated Accountants in 1889, and was in practice in Kettering from that date till his retirement and resignation in 1948. He was joined in partnership in 1932 by Mr. T. F. Chater, F.C.A., A.S.A.A., who remains as senior partner in Messrs. Cattell and Chater.

In addition Mr. Cattell was secretary of the Kettering and District Boot and Shoe Manufacturers' Association from its inception in 1886 till 1948, and was also for very long periods secretary of the Joint Board of Conciliation and Arbitration for the Boot and Shoe Trade of Kettering, Desborough, Rothwell and Burton Latimer, and of the Joint Standing Committee in connection with Government Boot and Shoe Contractors. His wide experience, guidance and impartiality were much appreciated by both sides of the industry.

In Freemasonry he was Grand Superintendent of the Province of Northamptonshire and Huntingdonshire. His hobbies included horticulture, ornithology and conchology.